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Wednesday February 21 1990

Φ D 8523A

COMPANY CARS
The attraction of a free ride
Page 16

World News

Japan and US reach FSX fighter agreement

The US and Japan reached agreement for Mitsubishi Heavy Industries, the Japanese contractor, and General Dynamics of the US, to build a new jet fighter for Japan.

The announcement of the FSX agreement came as US Defence Secretary Richard Cheney arrived in Japan for meetings with defence officials. Page 18

Kohl on the hustings

W German Chancellor Helmut Kohl promised a crowd of East Germans a "flourishing" future in a united German fatherland during his first election campaign speech. Page 2

Hanoi rebuffs UK

Vietnam continued to resist British demands for the forced repatriation of more than 40,000 refugees in Hong Kong who are classified 'non-political' by the authorities there. Page 6

Havel presidency

President Vaclav Havel of Czechoslovakia hinted in the US that he might be prepared to stay in his post after his country's elections in June. Page 4

Vietnamese 'torture'

Torture and abuse of human rights remain widespread in Vietnamese prisons and "re-education camps" where political prisoners are held, Amnesty International says in a report today. Page 6

Army takes over

The Yugoslav authorities entrusted the army with maintaining order in the southern province of Kosovo after an escalation of ethnic unrest.

Uproar in Taiwan

More than 50 people were injured as stone-throwing protesters demanding full democracy clashed with riot police in a running battle around Taiwan's parliament. Page 6

Nepal lawyers strike

Nepal's 1,800 lawyers went on strike in support of a campaign for multiparty democracy in which many have died.

Aircraft near miss

Two passenger aircraft operated by China's state airline CAAC narrowly missed colliding over Peking airport on Saturday, western witnesses said.

Kenya murder hunt

Kenyan police called in senior British detectives to help investigate the death of Foreign Minister Robert Ouko, whose badly burned body was found last week.

S Koreans protest

Opposition lawmakers walked out of South Korea's parliament in protest against President Roh Tae-woo's new alliance, which took over control of the legislature.

Cuba troops out

Cuba and Angola announced they would resume from next Sunday the withdrawal of Cuban troops from Angola, which were suspended last January 25.

Walesa backs Jewry

Solidarity leader Lech Walesa said the Jewish nation had a moral right to join talks on German unification.

Iran expels BBC

Iran said it had closed the Tehran office of the BBC in retaliation for London's "hostile attitude" towards Iranians.

Berlin closes reactor

East Germany closed down one of four reactors at a controversial nuclear power plant because of a defect in a cable.

Caterpillars drafted

The US is examining ways to mass-breed caterpillars which eat the coca plant to destroy drug crops in Peru and Bolivia. Page 4

Business Summary

Channel tunnel contractors agree deal

CONTRACTORS building the Channel tunnel last night reached agreement with Eurotunnel, the project's owner, over a new management structure.

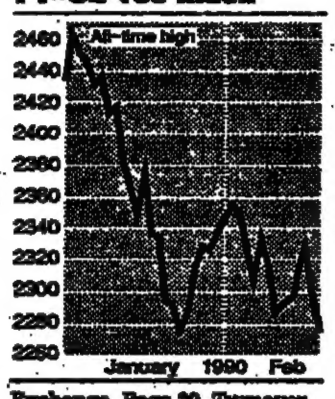
The deal, which was due to be signed late last night, should allow Eurotunnel to start drawing down £400m ($680m) of temporary finance, frozen by the group's bankers. Page 18

INDIAN GOVERNMENT is to postpone a decision on resumption of flights by the Airbus A-320 for at least a week and possibly considerably longer.

India grounded its 14 A-320s because of public fears about their safety following the crash of a two-month-old Airbus in Bangalore last week. Page 18

MARKETS: FT-SE 100-share index closed another 20.1 down at 2,277.0 – its lowest level this year – and a two-day decline of 48.9. London Stock

FT-SE 100 Index



Exchange, Page 29. Turnover in Tokyo's equity market fell to its second lowest level this year. Back page, Section II. Lex, Page 18

MINORCO, the South African-controlled investment group, agreed to pay $705m cash for Freeport McMoRan Gold, which is 61 per cent owned by Freeport McMoRan, the US natural resources group. Page 19

SOCK Shop International, the hosiery chain, asked the Companies Court to appoint administrators to give the group protection from its creditors, giving it breathing space to organise a refinancing package. Page 20

US BANKS and securities houses operating in Europe are urging that EC directives affecting the financial services industry should all be implemented at the same time, ensuring fair competition. Page 2

NATWEST pre-tax profits plunged to £404m ($686m) from £1.40bn a year earlier, although the bank's trading profit of £1.88m was 13 per cent higher than last year. Page 19

ISTANBUL is pressing ahead with plans to build a metro and a rail tunnel crossing of the Bosporus, together valued at $1.7bn. Page 8

SOUTH Korea is to change its method of determining its exchange rate, moving to a more market-based system, the Ministry of Finance said. Page 6

ZENITH Electronics said it was involved in "a major dispute" with Groupe Bull of France over the price to be paid by Bull for the US consumer electronics concern's Data Systems computer subsidiary. Page 19

KOYO Seiko, leading Japanese ball bearings manufacturer announced plans to invest £50m ($85m) to build a plant in South Yorkshire which will eventually employ about 400 people. Page 9

GALLAHER, British subsidiary of US tobacco group American Brands, bought Whyte & Mackay, the Scotch whisky distiller, for £160m ($272m) cash in a surprise late bid. Page 19

UK angers EC partners with decision on sanctions

By Kieran Cooke and David Buchan in Dublin

BRITAIN angered its European Community partners yesterday by announcing that it would lift unilaterally the voluntary ban on new investment in South Africa.

Mr Douglas Hurd, the British Foreign Secretary, made the announcement after a meeting of EC foreign ministers in Dublin which also agreed – for the first time – to give full backing to German unity provided Bonn consulted its partners at every step on the way.

The British decision to break ranks caused anger among its European partners. Mr Gerry Collins, the Foreign Minister of Ireland which holds the EC presidency, said the UK move would cause damage and create a dangerous precedent for individual EC states "doing their own thing."

Mr Hurd said that government action to lift the 1986 voluntary ban on new investment in South Africa – by means of a parliamentary statement – was now only "a formality."

He said US President George Bush yesterday telephoned Mrs Margaret Thatcher, UK Prime Minister, to say that although his hands were tied by congressional legislation on sanctions, "he shares our analysis and supports our stand."

The EC foreign ministers also decided during a stormy debate to consider sending the so-called EC troika to South Africa shortly. The troika is made up of past, current and future presidents of the council - in this case France, Ireland and Italy. It will contact all political elements in South Africa and report back to the Community.

Mr Hurd said the UK Government had not been against the troika mission. But he felt it would be read as "a delaying tactic in a fast-moving situation." Most important, it would give no immediate support to President F.W. de Klerk who had taken "his political life in his own hands" in freeing Mr Nelson Mandela.

The other 11 EC states yesterday decided that "re-engaging South Africa in cultural and scientific co-operation" was sufficient encouragement to President De Klerk, given that the state of emergency is still in force and political prisoners are still being held. Portugal gave some support to Britain's case for a joint EC removal of the investment ban, but did not apparently stand by a UK compromise move.

Under the compromise, Mr Hurd said he had offered to delay removing the investment ban if the Twelve committed themselves to removing their investment bans once the state of emergency was lifted.

A further condition was that the EC would remove the other sanctions introduced in 1986 once formal negotiations started between the Pretoria Government and the African National Congress.

In 1986 the EC added three

Continued on Page 18

EC backs German unity, Page 2; Monetary union begins with a currency board, Page 17

Fed chief says recession fears are on decline

By Peter Riddell in Washington and Anatole Kaletsky in New York

THE US may have avoided the danger of an imminent recession, though it still faces a risk of accelerating inflation, Mr Alan Greenspan, chairman of the Federal Reserve, said yesterday.

His comments – which seemed to dash any remaining hopes for lower interest rates in the near future, especially given the upward pressures on rates overseas – hit stock and bond prices. The Dow Jones Industrial Average fell 38.74 to 2,596.85.

The tone of the Fed chairman's half-yearly statement to Congress about monetary policy was cautiously confident. Following the marked slowdown in economic growth at the end of last year, he said several recent indicators suggested that "the weakest point may have passed."

A pick-up in car sales, stability in capital goods orders and a strong recovery in housing starts indicated "the beginnings of a modest firming in economic activity," he said. "While we cannot be certain that we are as yet out of the recessionary woods, such evidence warrants at least guarded optimism."

But Mr Greenspan said the US was in an area "where it is very easy (for inflation) to start accelerating." He said the risks at present were "larger than we should be willing to tolerate."

While most members of the Fed's policy-making Open Market Committee and regional bank presidents expected inflation pressures to remain contained, only a marginal improvement was expected this year and Mr Greenspan warned of the adverse impact of the recent decline in the dollar.

While today's consumer price figures for January would show a sizeable jump in energy and food prices after December's very cold spell, a reversal was "apparently under way."

Mr Greenspan was cautious about the financial implications of German unification. Lower rates, he said, were just as conceivable as higher rates once new flows of funds began to materialise.

While warning about possible longer-term problems from increased corporate borrowing, he did not expect current difficulties in the high yield/high risk junk bond market to cause any significant problems for the US financial system.

The US bond market saw heavy selling in the wake of the testimony.

Certain Treasury bonds were down almost two points at one stage – taking US long-term interest rates to their highest level since spring last year – but then recovered some ground. The Treasury's recently issued benchmark 30-year long bond fell 1½ points to 98¼, its yield jumping to 8.65 per cent.

While currency markets took the remarks in their stride, Wall Street equities were badly hit, not only by reeling bond prices but also by Tokyo's unexpected weakness after the Japanese election. Stock prices recovered a little, however, before the close of trading.

Details, Page 4; Markets, Section II

Alan Greenspan waiting to testify yesterday: his tone concerning monetary policy was cautiously confident, but his comments appeared to dash any remaining hopes for lower interest rates soon.

Japanese money supply growth puts pressure on interest rates

By Robert Thomson in Tokyo

JAPAN'S money supply in January grew 11.5 per cent from a year earlier, increasing pressure for another rise in the official discount rate and stirring government fears about a potential rise in inflation.

Money supply generally falls from December to January, and the 0.9 per cent growth from December last year is the first increase over this period since 1976.

The Bank of Japan yesterday indicated concern at the rise, although bank officials said the figure was not as bad as it appeared.

The Bank said the increase was influenced by a significant shift of funds out of bonds and postal savings instruments, which are outside the money supply calculation, and into deregulated deposit accounts, which are.

Bank officials also said an unusual five successive days of holidays at year-end and New Year had resulted in a surge of cash in circulation which had unexpectedly stayed in circulation. Year-on-year growth in cash was 11.6 per cent, up from a 10.3 per cent increase in December.

The central bank has predicted an annual money supply rate of only 9 per cent during the first quarter. Officials said that target could still be met if there was a significant fall in growth during February and March.

Mr Juye Araki, of the Nomura Research Institute, said the Bank of Japan is confident that the unexpectedly high rate of growth in January is not an accurate guide to the actual growth rate.

Ms Chiharu Sumita, of UBS Phillips and Drew, said that moeny was shifted out of bonds and into deposits because of concern about an unstable bond market and because of a long-term expectation of higher interest rates.

The discount rate was increased three times last year to 4.25 per cent after eight years without an increase.

Growth of money supply accelerated in December after several months of steady decline brought on by the central bank's tighter monetary policy. Over the last three months of last year, the annual growth rate was 10 per cent.

Gorbachev spells out German unity terms

By Mark Nicholson in Moscow

PRESIDENT Mikhail Gorbachev insisted yesterday that any progress towards German reunification must take place with the prior endorsement of its European neighbours and include both an east-west peace treaty with Germany and an "international legal act" to define the inviolability of post-war borders.

In the Soviet leader's fullest and most detailed remarks on reunification, Mr Gorbachev also states that it would be "inadmissable" for reunification to disrupt the strategic balance between Nato and the Warsaw pact.

Mr Gorbachev's remarks, contained in a lengthy interview in today's issue of Pravda the Communist Party newspaper, stresses the Soviet Union's historic preference for a demilitarised and neutral German state. Mr Gorbachev also reaffirms the Soviet position that "the Germans should themselves decide on the ways, forms and time-frame of their unification."

However, Mr Gorbachev adds: "The unification of Germany concerns not only the Germans. With all respect to their national right to it, the situation makes it impossible to imagine that the Germans will come to terms between themselves and then let the others merely endorse decisions already made."

Describing reunification as among the overriding issues in modern politics, the Soviet leader says that it must be accomplished both with the full consent of the four wartime allies - France, the Soviet Union, the US and the UK - and within the "general European process".

Continued on Page 18

Puerto Rico to return telephone company to the private sector

By Anatole Kaletsky in New York

PUERTO RICO plans to sell its state-owned telephone company in one of the biggest privatisations in US history.

The announcement, due to be made in the annual State of the Commonwealth speech delivered last night by Governor Rafael Hernandez Colon, is expected to attract active bidding from telephone companies around the world and to raise $2bn or more.

Proceeds of the sale of the Puerto Rico Telephone Company (PRTC) would be earmarked for educational and environmental programmes, also due to be announced last night.

Uniquely among the various US telephone systems, PRTC has been owned by the local government since 1974 when it was bought by the Commonwealth from ITT for $165m in a controversial, but popular, act of nationalisation. ITT had been widely accused of failing to invest in the improvement of the Puerto Rico telephone service and of abusing its monopoly.

Officials stressed that the decision to return PRTC to the private sector was not motivated by ideological considerations or any concerns about the efficiency of the present public sector management. The purpose was purely to raise a substantial sum of money for education and environemental spending.

During the 16 years of government control, the island's telephone business has grown rapidly and been transformed into a highly profitable business. Technologically, the system is an extremely advanced one, incorporoting almost 100 per cent digital switching.

However, in terms of market penetration, it remains comparatively underdeveloped by US standards. In Puerto Rico there are only 28 access lines per 100 people, compared with a US average of 41 lines.

Under the plan put forward yesterday, PRTC would be offered for sale to qualified bidders by Goldman Sachs, the Government's investment advisers. On the basis of recent stockmarket valuations and private transactions in the US telephone industry, the company would be worth at least $2bn, according to the investment bank.

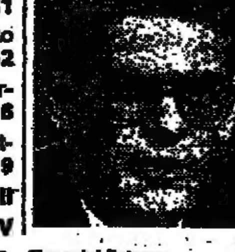
These proceeds would then be turned over to two newly established trust funds for education and the environment. The government-appointed trustees would invest the funds and spend the income on supporting innovative educational programmes and environmental improvements.

The Commonwealth of Puerto Rico has an unusual status in the US constitutional system. It enjoys the same autonomy as other states in running its internal affairs, although it does not have the same rights as other states at the federal level.

Like other state governors, Mr Hernandez Colon is elected for a four-year term and he works alongside a bicameral legislative assembly. The state's politics are heavily dominated by the Demcoratic Party and legislative approval of the Governor's proposals for privatisation proposals is almost certain.

CONTENTS

More than tinkering needed to mend consensus in Sweden



For a long time the 'Swedish model' seemed the perfect way to run a country. But now, with Prime Minister Ingvar Carlsson (left) facing an economic crisis, there are serious doubts about its future. Page 17

MARKETS

STERLING
New York:
$1.713
London:
$1.704 (1.7025)
DM2.8525 (2.855)
FFr9.6925 (9.7)
SFr2.5275 (2.535)
Y247.75 (246.25)
£ Index 90.0 (89.9)

GOLD
New York: Comex Apr
$423.1
London:
$419.75 (418.75)

N SEA OIL (Argus)
Brent 15-day Apr
$19.625 (19.65)

Chief price changes yesterday: Page 19

DOLLAR
New York:
DM1.6675
FFr5.666
SFr1.4775
Y145.1
London:
DM1.6745 (1.677)
FFr5.6875 (5.6975)
SFr1.484 (1.4885)
Y145.35 (66.9)
$ Index 67.0 (66.9)
Tokyo close: Y144.58

US Lunchtime Rates
Fed Funds $8\frac{1}{16}$%
3-mo Treasury Bills:
yield: 8.05%
Long Bond:
$98\frac{1}{32}$
yield: 8.68%

STOCK INDICES
FT-SE 100:
2,277.0 (-20.1)
FT Ordinary:
1,799.0 (-14.5)
FT-A All-Share:
1,137.40 (-0.8%)
New York
DJ Ind. Av.
2,596.85 (-38.74)
S&P Comp
327.18 (-5.54)
Tokyo: Nikkei
36,896.52 (-327.06)

LONDON MONEY
3-month interbank:
closing $15\frac{1}{8}$% ($15\frac{3}{32}$)
Liffe long gilt future:
Mar $84\frac{31}{32}$ ($86\frac{3}{32}$)

EUROPEAN NEWS

EC gives backing to German unity

By Kieran Cooke and David Buchan in Dublin

WEST Germany's European Community partners gave unanimous support to German unity for the first time yesterday after Bonn promised to consult them at every step on the way.

At a meeting of EC foreign ministers in Dublin, Mr Hans-Dietrich Genscher, the West German Foreign Minister, said his EC colleagues and the four Second World War Allied powers would be kept fully informed. "Nothing will take place behind their backs." Quoting the German author Thomas Mann, Mr Genscher said his aim was "a European Germany, not a German Europe".

Ministers of the Twelve also stressed again the "fundamental role" of the 35-nation Conference on Security and Co-operation in Europe as the future political framework for the whole of Europe and called for a meeting by mid-year to prepare for an autumn summit of the 35.

Bonn's emphasis so far had been on lining up the economic, legal and social systems of the two Germanys. But Mr Genscher also recognised there were concerns both in the West and in Poland about the external defence and security aspects of unification. Warsaw clearly needed a specific reassurance about the former German lands within its borders.

Mr Douglas Hurd, the British Foreign Secretary, toned down the recent, strongly-voiced concern of Mrs Margaret Thatcher, the UK Prime Minister, about the pace of German unity. He said Britain was glad to be able to support the process as well as the principle of German unity, but added that its effects on frontiers and on Bonn's membership of Nato and the EC needed further discussion.

In advance of the special summit on German unification in Dublin in late April, Mr Hurd called for a European Commission study on how East Germany could be absorbed into the EC. Mr Jacques Delors, the Commission president, said that Brussels would prepare studies by April – one on the effects of German monetary and political unity on Community policies, and the other on EC ties with the rest of east Europe.

Since last autumn's breaching of the Berlin Wall, complaints have surfaced at successive EC meetings about Bonn's cavalier rush towards unification. But yesterday there was a rallying around the formula reached last week in Ottawa for the four big powers to take part in the merger talks, provided Bonn kept everyone briefed.

Indeed, Mr Gianni di Michaelis, the Foreign Minister of Italy, which is not one of the big four, said "a united Germany would be a guarantee of stability and peace in Europe."

Two Germanys tackle one environment

The air needs to be cleared on way to unity, writes **David Goodhart**

THE EAST German revolution was perhaps the first in history in which dissatisfaction about industrial pollution played an important role.

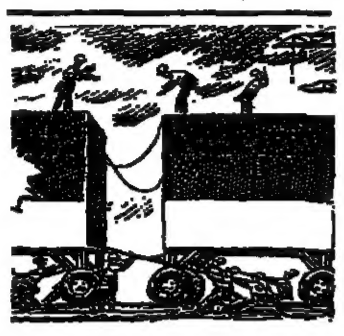
The stifling pall of pollution over the southern industrial belt – Halle, Bitterfeld, Leipzig, Dresden – was one cause of that region's angrier voice and vanguard role in the overthrow of the communist regime, says Mr Peter Diederich, the country's provisional environment minister.

In the run-up to German unification the environment is again setting the tone. In no other field has East Germany so completely abandoned the pretence of independence from its West German neighbour.

Advisers to Mr Klaus Töpfer, the West German environment minister, say that East Germany is preparing to copy most of Bonn's key environment laws. In return Bonn will pick up the bill for part of the clean-up, even before formal unification.

When last week Mr Töpfer demanded the closure of two of the four Soviet-designed nuclear reactors at East Germany's Greifswald plant because they did not come up to West German safety standards the East German authorities did what they were told without hesitation. Only in the field of waste dumping, where East Germany has decided it does not wish to continue acting as West Germany's dustbin, is there any trace of "eco-nationalism".

The sketchy data about East Germany's pollution problem, and the energy policies which have contributed to a large part of it, is a statistical chamber of horrors.



ROAD TO UNITY

More than 70 per cent of the country's primary energy consumption and more than 80 per cent of its electricity comes from burning highly-polluting brown coal (lignite). In 1988 East Germany consumed 310m tonnes of it – more than any other country.

With the exception of Rumelsburg in East Berlin, none of the 15 brown coal power stations is fitted with de-sulphurisation plants – now compulsory in West Germany – which is one reason air pollution is reckoned to be five times worse than it is in West Germany.

According to official statistics, 5.6m tonnes of sulphur dioxide were released in 1988, about half from the southern-based power stations and half from private households and industry. A recent West German report claims, however, that the figure is 4.1m tonnes from power stations alone. A single station at Cottbus is said to produce more than Norway and Denmark together each year.

Mining brown coal has damaged the East German countryside and uncontrolled burning of it has almost certainly damaged public health. In Halle, life expectancy is thought to be six years less than the national average.

Brown coal is not the only culprit. East Germany has a highly-polluting chemical industry. Carbide production is especially dirty, and the chemical industry has been dumping about 27m tonnes of mercury into the Elbe every year compared with about 3m tonnes that West German industry deposits in the Rhine. Nearly 70 per cent of all rivers need cleaning and 54 per cent of forests are damaged, even according to official figures.

Energy saving will be at the centre of East Germany's new "energy and environment plan" due to be published in April and costed at 100bn East German Marks. The plan is to reduce brown coal consumption by more than a third to 200m tonnes a year by the year 2000, to close the older brown coal power stations and to equip those remaining with anti-pollutant technology at an estimated cost of 30bn Marks. Artificially low energy prices will also have to go.

A start is already being made. Brown coal burning is expected to drop below 300m tonnes this year, and Mr Diederich has already announced the closure of some of the most polluting chemical works in the Bitterfeld area – which is expected to put 10,000 people out of work this year. Spending on environmental protection – only 0.4 per cent of gross national product in East Germany compared with 1.1 per cent in West Germany – will this year rise 500m Marks to 1.6bn Marks.

The biggest unknown is whether East Germany will plunge deeper into clean but unpopular nuclear power. Before the reactor closures last week, about 10 per cent of the country's electricity needs came from the Greifswald nuclear plant. The nuclear lobby, well-entrenched in the industry ministry and with friends across the inner-German border, wants to press on with the plans to build four more reactors at Greifswald (one is nearly completed), three at Stendal (the first of which might be ready by 1995, 20 years after work began), and possibly erect a new nuclear plant in the Leipzig area.

On Monday, the caretaker government headed by Mr Hans Modrow proposed that existing nuclear energy output be doubled with the help of western technology.

East German officials opened monetary union talks with their West German counterparts yesterday and agreed speedy results were needed. Mr Walter Romberg, heading the East German delegation, said he hoped the first concrete steps would be taken "very soon". Lack of confidence in the currency was an important reason for the departure of more than 90,000 East Germans to the west this year. But the social security system for East Germans should not be curbed.

Kohl enters E German election campaign

By David Marsh in Erfurt, East Germany

CHANCELLOR Helmut Kohl last night promised a vast crowd of East Germans a "flourishing" future in a united German fatherland. He warned, however, that the government taking over in East Berlin after elections on March 18 would need to bring in speedy market reforms to restructure the economy.

Making his first appearance in the poll campaign, Mr Kohl said unity was "tangibly close". To roars of approval, he proclaimed: "We want to shape the future together, as one people, as Germans."

He told an audience of well over 100,000 packed into the cathedral square that planned economic and currency union would be backed up by social measures to protect living standards.

In a clear attempt to defuse fears of rising prices and unemployment, Mr Kohl promised to protect the interests of savers, to secure pensions and to set up a modern unemployment benefit scheme.

He avoided any fresh undertakings on monetary union, pointing out that talks between officials had got under way in East Berlin only yesterday.

Mr Kohl delivered a rebuff to Mr Hans Modrow's Government, which last week asked for DM15bn (£5.35bn) in "stability funds". He said: "I am not ready to invest billions in this system if the amounts do not go to the good of the people."

The Chancellor, who was supporting the electoral alliance of three conservative East German groupings, said his meeting with more than 50 West German industry and union representatives in Bonn yesterday had produced a positive response on the East German economy. "If the framework and legislation are right, not just hundreds but thousands of companies will be ready to come here from the Federal Republic to invest."

Monetary union could come very quickly. But he listed detailed prescriptions for necessary reforms, including commercial freedom, full property rights, free competition and liberalisation of foreign trade.

His speech was punctuated by chants of "Helmut, Helmut" and he was mobbed when he arrived. However, the tone of the gathering was less euphoric than in Dresden two months ago.

Brussels proposes common minimum corporation tax

By David Buchan

BRUSSELS is gearing up for another assault on tax – the equivalent in European Community terms of trying to climb the north face of the Eiger.

Next month, EC states will receive a formal communication from the Commission, urging them to remove all tax barriers and disincentives to cross-border mergers and suggesting a common minimum corporation tax to stem further competitive tax-cutting among the Twelve, Mrs Christiane Scrivener, the EC Tax Commissioner, said yesterday.

Brussels' recent fiscal focus has, with the 1992 programme, been to try to bring indirect taxes like VAT more into line. Its proposals to harmonise direct tax rates on companies are a decade out of date, since the UK and many other governments cut rates in the 1980s.

Mrs Scrivener said she was attracted by the Dutch Government's idea for putting a floor under EC corporate tax rates.

"It is clear that we are going to have competition between states to cut rates, causing some governments budgetary problems."

The idea would have to be negotiated with non-EC countries. In what was hardly an encouraging parallel, Mrs Scrivener likened the minimum corporate tax to her ill-fated proposal last year for a minimum tax-at-source on individuals' investment income.

For nearly 20 years, EC finance ministers have failed to take action on three Commission proposals. These are aimed at eliminating double taxation of dividends paid from subsidiaries in one EC state to parent companies in another, creating compulsory arbitration in transfer pricing disputes between EC states, and at allowing capital gains tax to be deferred on the assets of a company being taken over in a cross-border acquisition.

If the next couple of months saw no move on these proposals, crucial to the single EC market, then the Commission would take the matter to the Dublin summit in June, Mrs Scrivener warned.

She has been criticised, most recently last week by her fellow French liberal, ex-President Valery Giscard d'Estaing, for being ineffectual. But she is burdened by the fact that all tax proposals require unanimity among the Twelve, a problem currently illustrated by little Luxembourg's successful solo opposition to greater co-operation between tax authorities.

At yesterday's press briefing, Mrs Scrivener suggested that in the forthcoming revision of the EC treaty – occasioned by the monetary union debate – all tax proposals related to the single market should be subject to majority, not unanimous, vote.

World Bank chief lauds Polish economy measures

By Christopher Bobinski in Warsaw

THE PRESIDENT of the World Bank, Mr Barber Conable, arrived in Poland yesterday to sign an agreement on investment loans worth $360m and praised the Government for "the courageous way it has gone about stabilising the country's economy."

The investment loans are aimed at the development of Poland's industrial and farm export sectors.

The World Bank has said it envisages loans worth $2.5bn to Poland over the next three years, which, according to Mr Conable, "is not unusually large for a country of Poland's size and problems".

Talks are continuing between the World Bank and the Poles on loans for environmental protection worth $15m, communications worth $100m, and transport worth $150m.

The programme also includes a $250m loan for the energy sector and $200m for an industrial restructuring programme.

The Poles have also asked for a $500m structural adjustment loan, $200m more than the World Bank is at the moment willing to consider for such a loan.

US groups 'seek fair treatment from EC'

By David Lascelles, Banking Editor

US BANKS and securities houses operating in Europe are urging that European Community directives affecting the financial services industry should all be implemented at the same time to ensure fair competition.

In a statement published by the American Chamber of Commerce in London, 18 leading US institutions express concern about delays in Brussels in formulating promised directives for the investment services industry. By contrast, they note, the main directive affecting banks has already been agreed.

They are worried that banks will obtain the "single passport" to a unified market before investment institutions. Although this would be of little concern to countries which operate universal banking systems, it has implications for institutions from the US, where there are strict legal distinctions between banking and investment.

"The importance of the existence and operation of such differing institutions to such member states should not be underestimated," they say.

The American Chamber is proposing that investment services directives be implemented on the same date as the banking directive, that is, January 1 1993. It wants to ensure that banks and investment firms receive the single passport at the same time, and that capital adequacy arrangements for the securities activities of banks and securities houses be harmonised.

About 50 US banks and 35 US securities houses are active in the EC. The Chamber statement's signatories include banks such as Citibank, Chase Manhattan and Morgan Guaranty, and securities houses like Merrill Lynch, Salomon Brothers and Goldman Sachs.

Army sent to Kosovo

Police killed an ethnic Albanian demonstrator in Yugoslavia's southern province of Kosovo yesterday as the country's leaders ordered the army to quell unrest there, Reuter reports. The state presidency decided army troops could be used for the first time to crush unrest and prevent violence in some circumstances.

EUROPEAN NEWS

Mounting violence undermines Romania's political parties

By Judy Dempsey in Bucharest

THE CAMPAIGN for the Romanian elections on May 20 has begun against a background of increasingly violent demonstrations which are rapidly eroding the authority of all the leading political parties.

The ruling National Salvation Front, which was brought to power in the December revolution, still believes it can win in spite of the demonstrations, many of which are being manipulated either by it or by the opposition National Peasants Party. But scepticism is mounting among sections of the population who feel the revolution has lost direction.

This disillusion first emerged on January 28 when angry anti-Front demonstrators, organised by the National Peasants Party, marched on the government building after the Front decided to stand in the elections. The following day, pro-Front miners ransacked the headquarters of the NPP and the National Liberal Party (NLP) in the first act of violence since the revolution.

Similar scenes were repeated last Sunday. Scores of people suddenly emerged from a peaceful and good-natured demonstration outside the government headquarters and stormed the building.

Nobody knows what sparked this second burst of violence. Some Romanians point the finger at the pro-Front Government which is desperately trying to regain the initiative after weeks of indecision. The Front, without naming names, accuses "paid hooligans". Curiously the army received no orders to break it up.

The following night, pro-Front miners travelled to Bucharest in their thousands even though Mr Ion Iliescu, the interim President, had appealed to them not to come. They received maximum television time and were addressed by Mr Iliescu. Cynical Romanians say the Front's ability to call on its supporters recalls the Ceausescu days.

The question now is where all these demonstrations are leading. They form a symbolic backdrop to the election campaign in which the main contenders are the NPP, the NLP and the Front.

The last named is doing everything in its power to discredit the NPP. Its main trump card is the economy. Mr Dan Iosif, a member of the Front's political party, yesterday ran rough-shod over the NPP's policies. "We do not rule out taking foreign credits, but we will never agree with the idea of monopolistic capitalism. We will not sell factories to private persons."

Such words fall on fertile ground among workers who fear that privatisation will lead to high unemployment. "The workers must have a guarantee by the state that they will not be unemployed," said Mr Iosif. Such views gave the Front 56 per cent of the votes in a recent opinion poll.

But Mr Silviu Brucan, who advises the Front, yesterday denied that it shied from taking unpopular measures which would affect the workers. "Several unprofitable factories have already been closed."

The NPP is suspicious about what it regards as the Front's Socialist policies. It wants privatisationwhich, in its view, would lead to the dismantling of the bureaucracy and Communist managers.

Despite these sharply contrasting views, some signs of fragile agreement are beginning to emerge about the need for stability and social peace. Without this, it will be difficult to press ahead with the elections and economic reforms which would mark the first phase in reconstruction.

President Iliescu urged these miners not to demonstrate for the Front in Bucharest. But they did, received maximum television coverage and were addressed by him

Greeks win extra wage increases

By Kerin Hope in Athens

THE GREEK Government has agreed to additional wage increases this year of up to 3.5 per cent above the index-lined rises guaranteed by law in an effort to avert a new round of strikes.

The Prime Minister, Mr Xenophon Zolotas, mediated personally in last-minute talks with the General Confederation of Greek Labour and the Bank Workers' Union, which had planned strikes this week.

The new agreement will bring wage increases for the first four months to 7.7 per cent for 1.3m confederation workers and 9.1 per cent for the 30,000 bank employees. The index-linked rises are handed out every four months on the basis of anticipated inflation, which is forecast to reach 16 per cent this year.

Despite a worsening economic situation in which the government must cover monthly deficits averaging Dr160bn (£597m) the increases are seen "as less expensive on balance than the cost of extended strikes," a senior government adviser said.

Earlier, Mr Zolotas said that government spending would be trimmed by almost Dr1,000bn in 1990 under a cost-cutting programmes for each ministry. Total outlays will reach Dr4,497bn, down from Dr5,358bn last year, when the the public sector borrowing requirement reached a record 21.5 per cent of GDP.

OECD concern over Norwegian recovery

By Robert Taylor in Stockholm

NORWAY must tighten its fiscal policies and improve the productivity of its mainland economy to reduce its over-dependence on North Sea oil, according to the Organisation for Economic Co-operation and Development.

The OECD's report on Norway praises the centre-right coalition and the former Labour administration for taking encouraging policy initiatives to "create the conditions for a return to a balanced and sustainable path of growth" after the crisis which followed the 1986 fall in oil prices.

However, it argues that the growth of public expenditure, being higher than that of national income, is incompatible with the longer-term objective of shifting resources to the non-oil tradeable sector.

It expresses anxiety about the strength of Norway's economic recovery, pointing out that the return of an external trade surplus has owed much to the steep rise in oil and gas production and that this has made the economy "more vulnerable to price shocks."

"With the upturn in domestic demand, the deficit on traditional trade is expected to rise again," the report says. "This suggests that maintaining relatively easy labour market conditions without further substantial improvements in cost competitiveness is not sufficient for resources to be shifted to the exposed sectors of the mainland economy as intended by the authorities."

The OECD fears inflation could start to rise again and believes savings are too low. It also points out that profitable export-oriented companies have hesitated to expand capacity in the belief that high prices and buoyant world demand are "unlikely to be sustainable for long." It emphasises that net foreign debt has doubled in relation to gross domestic product since the mid-1980s.

As the OECD recognises, the future pattern of earnings remains uncertain with the end of the statutory incomes-policy this spring. Unemployment is expected to stay relatively high by Norwegian standards at 4.75 per cent this year and 4.5 per cent in 1991.

Andreotti's coalition starts to look wobbly

The upheaval in the Communist party has led Italian politicians to look greedily for an electoral harvest, says John Wyles

IT IS now an open question in Rome as to whether Italy's main governing parties will be able to resist the temptation to cut and run for an early general election.

The political understanding between the dominant Christian Democrat and Socialist parties is supposed to allow Mr Giulio Andreotti's five-party coalition to meander on until the late spring of next year. But the threats to his government, both real and apparent, are such that the 70-year-old veteran will need all his wiliness to survive.

He has lost none of his skills as a mediator, but the present state of drift and disarray within the governing majority is finding him surprisingly unable to provide a personal lead.

Unless he succeeds in imposing a better sense of direction over the next month, Mr Andreotti could fall because the political will needed to resolve the policy issues now beginning to fracture the coalition is being sapped by the scent of electoral gain.

Since it is recognised that there is no alternative within the present legislature to the Andreotti coalition, its collapse could lead to elections in June.

Many senior Socialists and Christian Democrats are already greedily pondering the possible harvest which could be reaped from the current turmoil in the Italian Communist Party (PCI) over its future identity and name.

The PCI Congress in Bologna in the first week of March will be a turning point in the strategy of Mr Achille Occhetto, its leader, to relaunch the party. Nearly 40 per cent of the membership is opposed to the initiative and not even the most optimistic member of the party leader's staff believes that the PCI can hold its vote in local elections in May.

The original Christian Democrat-Socialist plan of soldiering on to early elections next spring – the current legislature expires in 1992 – would give Mr Occhetto a valuable year to rebuild his party, which at the last elections took a 27 per cent share with 10m votes.

The extraordinary escalation of conflicts both between the coalition parties and within the Christian Democrats over the past month suggests that early election options are being carved out. Most of the rows may yet be resolved, but each sits like a loaded gun pointing at the heart of the Andreotti coalition.

Both the Socialists and the Republicans are reaching for the trigger over the issue of immigration. Mr Claudio Martelli, the Socialist deputy prime minister, is the architect of a new policy which aims to be more restrictive and which the Republicans say is guaranteed to fail.

They have put down no fewer than 60 amendments to the government's legislation, which even in Italy is more than a little provocative for a governing party. The immigration issue can be used by either the Republicans or the Socialists to trigger a government crisis if they so wish.

Anti-trust legislation as a protection against concentration of ownership in the media is emerging as another potential threat to the coalition. The Socialists want the softest possible approach which would largely leave unchanged the status quo, and thus Mr Silvio Berlusconi's ownership of three television networks as well as his recent incursion into Mondadori, Italy's largest publishers.

Here Mr Bettino Craxi, the Socialist leader is opposed not only by the Republicans again but also the Christian Democrat left, which is openly in revolt against a party leadership which it says is too subservient to Mr Craxi.

In a highly unusual move for a party which pays heavy lip-service to the notion of unity, the Christian Democrat left has formally gone into "opposition" and quit all leadership posts. Despite vows of unswerving devotion to the government, the Christian Democrat left has created for itself the option of bringing down Mr Andreotti.

Again Mr Occhetto could be the catalyst for these Christian Democrats have the most to fear if the Communist Party is allowed time to bury "the red threat" and with it the Christian Democrats' utility to lower income voters as a bulwark against Communism.

Finally, the privatisation issue is one which could unexpectedly split the coalition. Mr Franco Nobili, the new president of Iri, has outraged the Liberals and Republicans and set minister against minister by appearing to rule out any transfer to private hands of major activities for which he is responsible.

Mr Guido Carli, the Treasury Minister, complained at the weekend at the government's reluctance to use privatisation as a means of reducing its mountain of outstanding debt. He lamented his isolation over the issue and left some observers suspecting that he may yet resign unless Mr Andreotti is prepared to make some concessions.

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Fed sees evidence that recession can be avoided

By Peter Riddell, US Editor, in Washington

"GUARDED optimism" about the US economy's chances of avoiding a recession this year was expressed yesterday by Mr Alan Greenspan, the chairman of the Federal Reserve, in his half-yearly "Humphrey/Hawkins" testimony to Congress.

In reaffirming the Fed strategy of establishing a "clear downward tilt to the trend of inflation" while avoiding a recession, Mr Greenspan said "the evidence of recent weeks is more encouraging than otherwise".

He noted an inventory correction in the motor industry, stability in industrial activity in other sectors and a recovery in housing starts last month which indicated "the beginning of a modest firming in economic activity".

While "we cannot be certain that we are as yet out of the recessionary woods, such evidence warrants at least guarded optimism".

However, he also pointed to some cautionary undercurrents, notably the recent substantial deterioration in profit margins, which, if continued, could "seriously undercut the still expanding capital goods market".

Mr Greenspan said "a more deep-seated concern" was the increase in debt leverage, though it was difficult to assess how serious a threat this was to economic activity. "Should the economy fall into a recession, excess debt service costs would intensify the problems of adjustment. But it is unlikely that in current circumstances strains coming from the economy's financial balance sheet can themselves precipitate a downturn."

Greenspan: discusses international influences on policy — Terry Kirk

Warning that January's consumer price index due out today would probably show a sizeable jump in energy and food prices after December's cold spell, he suggested that a reversal was "apparently under way".

He described the inflation figures so far in 1990 as "horrendous" and said the Fed was disturbed by the "extraordinary increases" in food and energy prices. But those increases appear to have been "essentially constrained" and have not spilled over into other sectors of the economy or affected wage rates. The Fed had taken no actions in response to those price changes.

The Fed's report to Congress contains its usual "central tendency" projections of members of the policy-making Federal Open Market Committee and other Fed Bank presidents. These are for a somewhat slower rate of economic growth and a slightly higher rate of unemployment than projected by the Bush Administration in its budget three weeks ago. For instance, real gross national product is expected to rise by between 1.75 and 2 per cent in the year to the fourth quarter according to the Fed, and by 2.6 per cent according to the Administration.

The respective figures for unemployment were 5.5/5.75 per cent and 5.4 per cent (against 5.3 per cent currently).

On inflation, the Fed sees at best only a marginal improvement on the recent 4.5 per cent inflation rate.

The report says the pace of expansion is expected to be reflected in some easing of pressures on domestic resources. However, the near-term prospects for a moderation in labour cost pressures are not favourable and "the recent depreciation of the dollar will constitute another impetus to near-term price increases, reversing the restraining influence exerted by a strong dollar through most of last year".

These forecasts support a restatement of the Fed's goal of restraining growth in the money supply and in aggregate demand in coming years sufficient to establish a clear downward tilt in the trend of inflation while avoiding a recession.

Mr Greenspan warned that "approaching price stability may involve a period of expansion in activity at a rate below the growth in the economy's potential, thereby relieving pressures on resources". He said that once some slack develops, growth can then pick back up to around the economy's growth rate potential, even as inflation continues its trend down. Later, as price stability is approached, real output growth can move still higher, until full resource utilisation is restored.

He explained that Fed decisions to ease monetary policy last year were consistent with the price stability goal and were intended to forestall an economic downturn.

Mr Greenspan announced that the Fed had decided to confirm the tentative 3 to 7 per cent growth range for M2 this year set last July. This is expected "to produce somewhat slower growth in nominal GNP this year." Because of the drop in interest rates last year the growth in M2 may be faster than in recent years.

The M3 range has been reduced a percentage point to 2.5/6.5 per cent to take into account the effects of the restructuring of the savings and loans industry with a shift of assets away from depository institutions. The monitoring range for non-financial debt has been reduced 1.5 points to 5/9 per cent to reflect a lower level of corporate borrowing as a result of less merger and acquisition activity and a greater use of equity financing.

Mr Greenspan says the Fed should not be expected mechanically to lower the M2 growth range every year during transition to price stability. As market interest rates fall in response to moderating inflation, the public's demand for M2 relative to nominal spending is likely to rise, lowering M2's velocity. Hence the growth of M2 may show little deceleration over several years.

His written testimony also contains a lengthy discussion of international influences on policy-making. Mr Greenspan says these "do not fundamentally constrain our ability to meet our most important monetary policy objectives. Exchange rates absorb much of the impact of developments in foreign asset markets, permitting US interest rates to reflect primarily domestic economic conditions".

US Economic and Monetary Outlook

Target Growth Ranges	July 1989	Feb 1990	
M2	3% – 7%	3% – 7%	
M3	3.5% – 7.5%	2.5% – 6.5%	
Non-financial debt	6.5% – 10.5%	5% – 9%	
Economic Forecasts*	**Fed Jul 1989**	**Fed Feb 1990**	**Bush budget†**
Real GNP	1.5–2%	1.75–2.0%	2.6%
Nominal GNP	5.5–5.75%	5.5–6.5%	7.0%
Consumer prices	4.5–5%	4.0–4.5%	4.1%
Unemployment % Q4	5.5–6.0%	5.5–5.75%	5.4%

* Annual % change to fourth quarter 1990 † January 1990
Source: Central tendency projections of Federal Open Market Committee members and other Fed Bank presidents; Council of Economic Advisers' estimates

Brazilian businessman to join Collor team

By John Barham in São Paulo

BRAZIL'S President-elect Fernando Collor de Mello has made one of his most important cabinet appointments, naming Mr Ozires Silva as the future Infrastructure Minister.

Mr Silva, 59, whose appointment was announced on Monday, is a Brazilian corporate hero often compared to Chrysler's Lee Iacocca, with the difference that Mr Silva is a retired air force colonel who made his mark in the public sector.

The newly created Infrastructure Ministry will combine the present communications, transport and mines and energy ministries. It will control about 80 per cent of government investments with a 1990 investment budget of $12.5bn. The ministry will also control three of Brazil's largest companies, the state-owned mining, oil and steel groups.

The ministry's giant size and awesome spending power will make Mr Silva an important figure in the new government, which takes over next month.But the size of the portfolio appears to clash with the Government's promise to streamline the bureaucracy and reduce public spending.

However, Mr Silva said one of his first priorities would be to pursue an aggressive privatisation policy. He said 350 federally-owned companies would be sold to private investors, including Embraer, the air force-controlled aircraft manufacturer he founded in 1968.

The transition team hopes to raise $3.5bn through privatisation in 1990.

Mr Silva won a reputation as a tough, efficient and outspoken businessman at Embraer, which he tried to manage like a private company. The outgoing President, José Sarney, made him president of Petrobras, the national oil monopoly, on the strength of his record at Embraer. But Mr Silva resigned in protest at the Government's policies.

Venezuelan Recadi ruling overturned

By Joseph Mann in Caracas

VENEZUELA'S Supreme Court on Monday nullified decisions by a lower court which charged that 10 officials in the last government had misappropriated large sums of government funds used in a foreign exchange subsidy programme called Recadi.

The ruling, which was not unanimous, concerned high-level officials in the 1984-89 administration of President Jaime Lusinchi and included two former ministers of finance, Mr Manuel Azpurua and Mr Hector Hurtado; a former minister of development, Mr Hector Meneses; an ex-president of the central bank, Mr Mauricio Garcia; and a former minister of planning, Mr Modesto Freites, who was elected to a governor's post last December while in jail.

Last November, a superior court which examined cases of alleged corruption involving individuals in top government positions issued arrest warrants against the 10 officials and five others. They were charged with improperly approving the use of billions of dollars in government funds to be spent for imports and other purposes under the much-questioned Recadi system, which was abolished at the beginning of 1989. Only two of the 10 charged surrendered to authorities but all protested that they were innocent.

Mexican union accuses Ford

By Richard Johns in Mexico City

THE leader of the Confederation of Mexican Workers (CTM), Mr Fidel Velasquez, has claimed that Ford has broken off peace-seeking talks with the confederation, aggravating the company's conflict with the country's union movement.

Mr Velasquez has undertaken to seek the intervention of Mr Arsenio Farrel, the Labour Minister. The row stems from a complicated three-way dispute involving the union leadership, Ford and a dissident union faction. Trouble began on January 8 and led to to a five-week total stoppage.

A minority of the labour force returned to work on February 12, but 1,800 workers are still to be re-hired at its Cuautitlan plant. Mr Velasquez is reported to have told union dissidents' leaders he would ask for Mr Farrel's intervention "to oblige the company to fulfil its commitments".

Leaders of a rebel faction of the Cuautitlan labour force claim Ford's management undertook to re-hire all the workers without any victimisation, and with guarantees for their safety. Last week, a Ford spokesman in Detroit said the company was re-employing workers on a "case-by-case" basis.

Mr Jaime Serra Puche, Minister of Commerce and Industry, felt the dispute to be sufficiently serious to fly to Detroit for talks with company managers last Wednesday, together with Mr Nicholas Sheele, president of Ford's wholly-owned Mexican subsidiary.

Previously, Ford, faced with the defection of dissidents to the rival Confederation of Revolutionary Workers, has stressed that it would only have dealings with the CTM. But the union's top leadership, headed by the veteran "Don Fidel", has increasingly been unable to control rank-and-file membership.

In another confrontation, Cerveceria Modelo has dismissed all 5,140 workers at its brewery in Mexico City following a judgment by the Federal Committee for Conciliation and Arbitration (JFCA) that their strike, which began last Wednesday, was "non-existent" – the Mexican euphemism for unofficial. The JFCA has ordered that they should hand over the plant and seven distribution depots in the Federal District.

Several thousand strikers demonstrated outside the offices of the JFCA, expressing their determination "to protect the installations at all costs". The brewery workers are seeking a revision of their contract and discussion with management on a list of petitions. With Ford workers also demonstrating on the Paseo de la Reforma, Mexico City's main street, traffic was in chaos yesterday.

Surinam army pulls out of rebel talks

By Canute James in Kingston

AN EFFORT by the military in Surinam to negotiate an agreement with a rebel group has failed. Commander Desi Bouterse, the army leader who was heading the talks, has said he will not continue because the Surinam Government has been interfering in the negotiations.

Commander Bouterse, who headed the Government for eight years before handing over to an elected administration, did not elaborate on his allegations of interference. A government spokesman made no comment on the army leader's contention, but said the negotiations would continue.

Mr Ronny Brunswijk, leader of the rebel group, the Jungle Commando, said he was disappointed at the decision of the military to end the talks.

Havel hints he may stay on as Czech president

By Lionel Barber

PRESIDENT Vaclav Havel of Czechoslovakia hinted yesterday in the US that he might be prepared to stay in his post after his country's elections in June.

Mr Havel, the first Czechoslovak head of state to pay an official visit to the US, was speaking shortly before meeting President George Bush at the White House.

The 53-year-old former jailed playwright agreed reluctantly to serve as president after the peaceful overthrow of the communist government last year. He said then he would remain in his post until free elections were held, but yesterday he told a TV interviewer: "If I should stay on, someone would have to talk me into it."

During his US visit, Mr Havel will hold talks with Mr Bush on the future of Europe, including German reunification and the balance of US and Soviet forces. He will also address a joint session of the US Congress today, an honour extended last year to Mr Lech Walesa, the former shipyard worker and Solidarity leader.

Czech officials have stressed that Mr Havel has not come to the US asking for money – though talks are under way on a new bilateral trade agreement. Czechoslovakia could also share in a new pool of $300m aid which the Bush Administration is seeking from Congress for the emerging east European democracies.

Mr Havel signalled yesterday that he was more relaxed about the prospect of German reunification than his counterparts in Poland. "If Germany is a democratic state I will not be afraid of it, even if it had 100m people. On the other hand, I would be afraid of Germany it if were a totalitarian state with 2m people."

US recruits caterpillar in war on drug crops

By Lionel Barber in Washington

THE US is examining ways to mass-breed caterpillars which eat the coca plant to destroy drug crops in Peru and Bolivia.

The project is part of a $6.5m research programme at the US Agriculture Department, where scientists are also studying chemical and biological agents aimed at eradicating marijuana and coca crops.

Disclosure of the research effort could arouse national sensitivities in Latin America, where the US is trying to woo Colombia, Peru and Bolivia into closer co-operation against narcotics trafficking. These countries are already wary about US inclinations toward an expanding military role in the so-called drugs war and are calling for more emphasis on economic aid.

The Agriculture Department's work focuses on the inch-long malumbia, a white moth which, in its caterpillar stage, devours the green leaves of the coca crop (the base for cocaine).

The malumbia is an indigenous pest of the coca plant in Peru's Upper Huallaga valley, the source of more than half of the world's cocaine. Researchers in the US believe that if they can mass-breed the insect, several hundred million malumbia eggs or caterpillars could be air-dropped over the coca-growing regions.

The bombardment would also be aimed at thwarting current efforts by the growers to spray their coca plants with malumbia-killing insecticides.

The White House said yesterday the programme was only experimental and included a study of herbicides and natural enemies of drug plants. "Neither troops nor caterpillars will go in without prior request and consultation of the host country," the White House said.

A Bush Administration official said the research was at an early stage. Results would be shared with interested parties, if it could be shown to be safe and effective. "We are not planning biological warfare against anyone. This is not a covert programme. It's not even an option at this stage, it's a prospect."

During the Reagan Administration scientists examined coca-killing herbicides including a crop killer known as Spike, manufactured by Eli Lilly. However, the company pulled out of the project after concern raised by environmentalists about the use of defoliants.

Argentina sticks to its guns, but the powder is wet

Few shots are being fired in the promised battle for reform as the economy totters, writes Gary Mead

ARGENTINA is sticking to its guns. There will be no return to controlled exchange rates, no backing down on privatisations, no U-turns on gradual elimination of export taxes.

So said Mr Antonio Erman Gonzalez, Argentina's Economy Minister, on Sunday evening. In other words, President Carlos Menem's Government has decided to put its head down and make a dash for the tape.

The trouble is that while the Government believes that race to be a 100-metre sprint, it is in fact embarked on a 5,000-metre hurdle race.

For one thing, there have been so many U-turns already that no-one is quite sure whether Mr Gonzalez was being serious on Sunday night, in spite of his grave expression and frequent sombre removal of his reading glasses.

Moreover, Argentina's currency, the austral, gives every sign of being on its last legs, having slumped from less than 2,000 to more than 4,000 australs to the US dollar in less than two weeks.

After a weekend of cabinet deliberation, more was expected than a reiteration of the tried and tired formula of promised immediate cuts in public spending. As always when spending cuts are mentioned, a vagueness crept in when it came to actual figures.

The Menem Government faces not only a broken-backed currency and an indefinite future of hyperinflation (February is unlikely to be less than 80 per cent, January's figure). It also needs to ready itself for the social effects of impending deep recession.

Industrialists are predicting that by next month they will be suspending more than 30 per cent of their workforce. There are reports of large private sector companies on the verge of closure, such is the drop in domestic consumer demand. Those industries dependent on imports no longer have any hope of long-term planning, since the austral's slide reduces import price considerations to a farce.

The finishing line for the Government is to rid Argentina of 11 or so gigantic leeches, state-owned companies which are, in different forms and with different schedules, up for private sale by the end of this year.

But the plans are already beginning to meet stiff opposition. The case of (so far only vaguely hinted at) plans to restructure nationally-owned banks is a symbol both of the extent of opposition to economic reform and the Government's response to protest.

In one case, the National Development Bank is owed almost US$2bn, loans to 70 state and private sector companies. The likelihood of its recovering that money is small.

The banking sector, both private and public, is on the point of collapse. The Banco Hipotecario Nacional (BHN) is a century old state-run bank originally set up to provide cheap home loans to the poor. Under the previous government, of Raúl Alfonsín, BHN was revealed to have extended loans at absurdly low interest rates to wealthy and middle-class people who mostly already owned valuable properties. In many cases those who obtained BHN loans were granted more than one.

It also emerged that the mortgagees frequently pledged allegiance to Mr Alfonsín's Radical Party. The funds for such loans, running to hundreds of millions of US dollars, came from and were guaranteed by the Government.

Last Friday employees of BHN's 52 branches occupied its central branch for a day, only leaving after its administrator had promised that only 14 branches would be closed, and none of the employees affected would be laid off. Room would be found for them elsewhere in the bloated public sector.

Similar such protests have brought 60-day reprieves for loss-making Buenos Aires railway lines which the government said had to close. The national network, which loses $2m a day, is up for sale. The Government prefers to leave the difficult issue of its rationalisation to its purchaser, though there may not be many interested buyers in the circumstances.

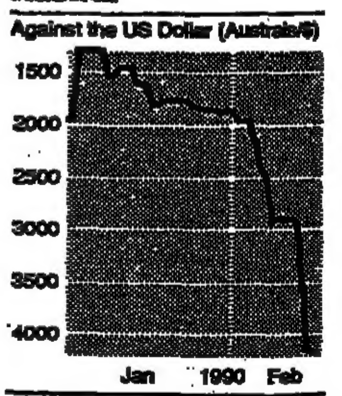
Mr Menem's hold on Argentina's 4m trades unionists was always bound to be slim once he took on board, in July last year, the idea that the state could no longer afford to subsidise nationalised companies to the tune of $5.5bn a year. Two million of those unionists work for the state. Privatisation threatens not only their jobs, but also the political clout of union leadership.

Ducking political conflict will soon no longer be an option for the Government, unless it is to lose the last shreds of its already thin credibility. The public is accustomed to governments which cannot govern, but they tend to survive only in better times.

Vain attempts are being made to recover lost public confidence, one such – paradoxically enough – by Mr Julio Mera Figueroa, Interior Minister, who said at the weekend that "there is corruption in government".

That is not news to anyone. What is news, and encouraging, is that a minister admits it. What would have been real news would have been the naming of names and the initiation of legal action destined to put the guilty behind bars.

But people do not go to prison in Argentina for maladministration. They are just found jobs elsewhere.



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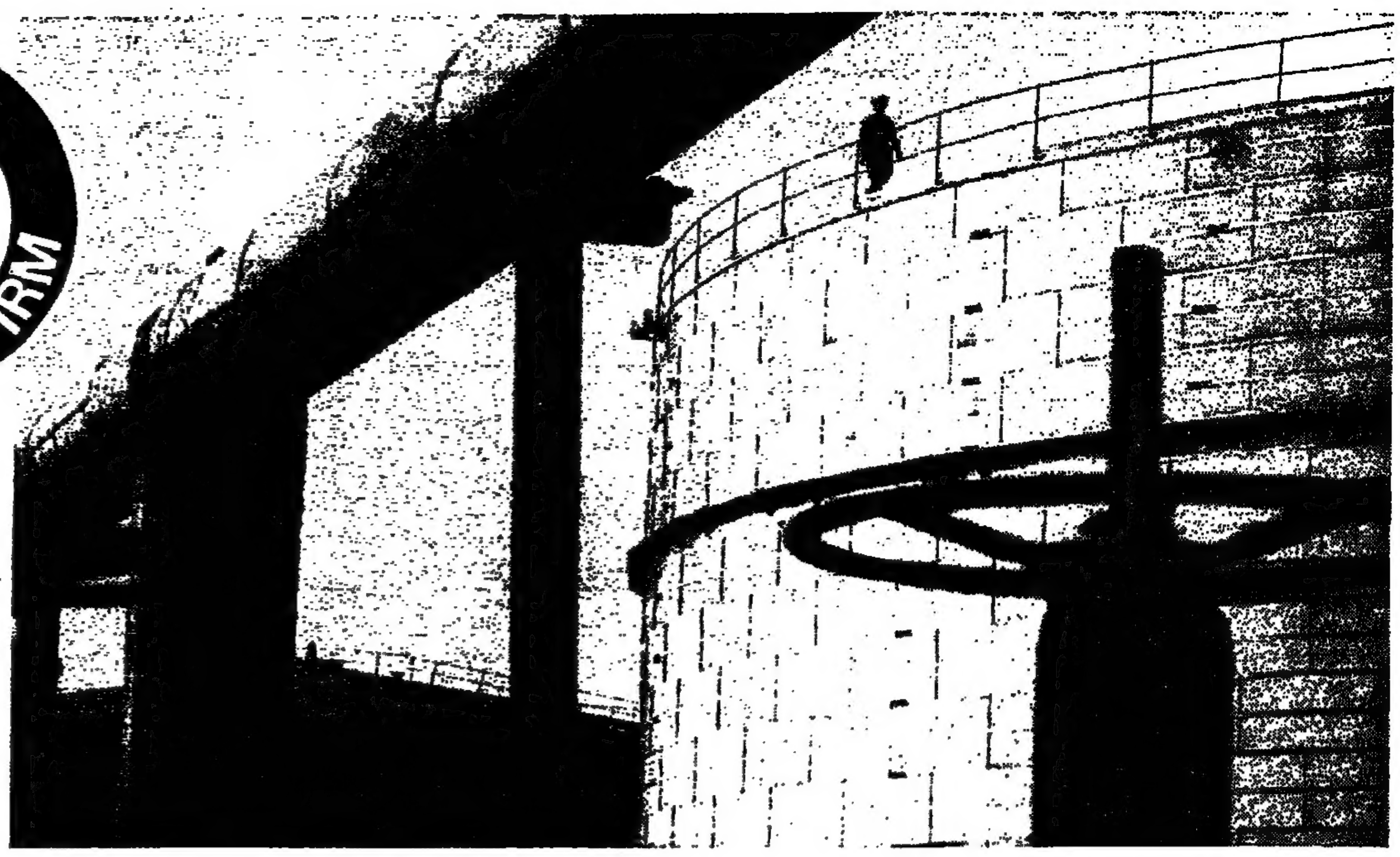

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Likud faces fresh storm over Cabinet replacements

By Eric Silver in Jerusalem

TWO NEW Cabinet appointments last night plunged Israel's right-wing Likud party into disarray with disaffected members accusing the Prime Minister, Mr Yitzhak Shamir, of splitting the party.

Mr Moshe Nissim, a former Finance Minister, replaces Mr Ariel Sharon at Industry and Trade, while Mr David Magen joins the Government as Minister without Portfolio. Both are Likud MPs known for their loyalty to Mr Shamir. Moroccan-born Mr Magen won his spurs by managing last year's successful Likud local election campaign.

Supporters of Mr David Levy, the Deputy Prime Minister, were furious that he had not been consulted and that his candidates had been ignored. Mr Levy is an ally of Mr Sharon, who resigned to fight the Prime Minister's peace initiative.

Mr Levy's brother, Maxim, accused Mr Shamir of irresponsibly leading the party into a split.

A Likud backbencher, Mr Reuven Rivlin, added: "The house is burning and Shamir is adding fuel to the fire instead of extinguishing it."

At the same time, Mr Shamir is facing a revolt by a group from the former Liberal Party, which merged with his Herut to form the single Likud party. The group, led by Mr Yitzhak Moda'i, another ex-Finance Minister and currently Minister without Portfolio, is threatening to re-establish the Liberals as a separate faction.

● A Palestinian human rights group yesterday accused Israel of pursuing a shoot-to-kill policy to put down the two-year-old intifada uprising in the occupied West Bank and Gaza Strip.

Al Haq, which is affiliated to the International Commission of Jurists, alleged that special units had carried out 18 "summary executions" of suspected intifada leaders last year.

Of these, three are documented in the Palestinian organisation's report for 1989, released here yesterday. Ms. Mona Rishmawi, the executive director, said that the other 15 were still being investigated by field workers.

The three named victims were Yasser Abu Ghosh, aged 17, who was shot in a Ramallah street on July 10; Nidal Habash (21), shot in Nablus on October 9; and Atwa Harzallah (27), killed in the village of Deir Ibzi on February 27.

Major Moshe Fogel, an Israeli military spokesman, denied that there was any policy of executions.

In cases where it was shown that soldiers acted improperly they were court martialled, he said. Since the start of the intifada, more than 90 have been indicted. Of these, 64 have been found guilty, 10 had been acquitted and the rest are awaiting trial.

Israel warns Iraq over fighters

By Eric Silver in Jerusalem

THE Israeli Defence Minister, Mr Yitzhak Rabin, yesterday warned Iraq not to move ground or air forces into Jordan, which shares a border with Israel.

His warning followed reports that the Iraqi and Jordanian air forces had established a joint squadron of French-made Mirage F1 fighters and that the two armies were planning a joint brigade. Mr Rabin said the new Mirage squadron was stationed in Iraq.

Speaking after briefing the parliamentary foreign affairs and defence committee, he played down fears that the co-operation was a prelude to the creation of an "eastern front" against Israel. "There is no meaningful eastern front without Syria," he told Israel radio, "and relations between Iraq and Syria are very bad."

Mr Rabin suggested that Iraqi-Jordanian co-operation was designed to bolster King Hussein against both internal and external threats, but he added: "We should keep our eyes open, follow up and make sure Jordanian territory is not used as a base for Iraqi presence or activity."

The Mirage F1 is comparable in quality to the middle range of Israeli warplanes, the Kfir and the Phantom, but is no match for Israel's F-15s and F-16s.

Jordan is, however, due to take delivery soon of the more advanced Mirage 2000.

Israeli analysts have pointed out that in the wake of the Gulf war, Iraq has the biggest, best-equipped and most experienced military establishment in the Arab world.

President Saddam Hussein still has to settle scores with Israel over the 1981 bombing raid on an Iraqi nuclear reactor.

Up to now there has been a tacit understanding between Jerusalem and Amman that foreign forces would be kept out of Jordan.

Jordanian bank strike causes embarrassment to Government

By Lamis Andoni in Amman

EMPLOYEES of one of Jordan's biggest banks embarrassed the authorities yesterday by staging a sit-in protest against the management, appointed in a Government rescue effort last year.

Representatives of the 600 employees of Petra Bank, the country's second biggest, accused the management of seeking to destroy the bank and harassing employees, and demanded salary increases.

Petra Bank's Iraqi-born owner, Mr Ahmad Chalabi, was removed by a Government committee last August and accused of speculating against the Jordanian dinar and of "fraud and embezzlement."

Mr Chalabi, an influential banker who maintained close contacts with high ranking officials, left Amman in somewhat ambiguous circumstances and later vehemently denied the charges.

The Government's subsequent failure to bring Mr Chalabi's associates to trial or to produce a report on its findings has, however, lately given rise to mounting public criticism. There has been speculation that the Government's caution stems from fear of unleashing an uncontrollable financial and political scandal.

Despite political liberalisation in Jordan, the Ministry of Labour declared yesterday's sit-in illegal.

But the employees, supported by the labour unions, defied the Government warning, and called for the resignation of the management, which was appointed under martial law provisions.

In January, the new government of Prime Minister Mudar Badran pledged to lift the martial law which has been in effect since 1967.

Protests such as yesterday's may spark open questioning of the Government's repeated promises to combat corruption, turning the Petra Bank crisis into another test of Jordan's delicate experiment with democracy.

Gulf games become political football

By Hunter Reynolds in Dubai

WHEN it comes to gauging the political temperature in the Gulf, there is nothing quite like a soccer tournament.

And in the run-up to the biennial Gulf Cup, which opened yesterday in Kuwait, political ructions have once again been making themselves felt – this time in the form of a bizarre row between a Saudi prince and a Kuwaiti sheikh that has already led to a Saudi boycott of the event.

In the past, Gulf citizens' passion for football has often proved more powerful than their political divisions. Just as the warring Athenians and Spartans of antiquity would call a truce in order to compete in the Olympic Games, Gulf states – including Iran and Iraq – continued to meet on the soccer pitch even during the Gulf war. However, intra-Gulf rivalries have never been far from the surface.

During the 1986 tournament in Abu Dhabi, held at the height of the Gulf war, Iraq's President Saddam Hussein ordered his team to retire before the final match against Kuwait in an attempt to curry favour with the smaller Gulf states.

As a result of the Iraqi pull-out, Kuwait won the cup and the UAE, with a long record of coming last, was upgraded from fourth to third place. Both Kuwait and the UAE were ecstatic at their unexpected promotion.

The following tournament held two years later in Muscat was marked by a row between Saudi Arabia and the UAE. Saudi officials used the opportunity to poach the UAE coach, the Brazilian Carlos Alberto.

Local pundits have suggested political reasons for the Saudi pull-out

Elsewhere, the incident would have been insignificant but the sensitivities of the Gulf gave it political overtones, leading to an official statement from the UAE Government condemning Saudi "treachery".

This year, Saudi Arabia has caused consternation by announcing that it was not sending a team. This is the first time that a team has pulled out before the tournament, in a move that is regarded as tantamount to sacrilege.

The Saudi withdrawal has led to a round of mud-slinging between the kingdom and the competition hosts, Kuwait. The row has involved the men who head their countries' football associations: Prince Feisal, son of King Fahd of Saudi Arabia, and Sheikh Fahd al-Ahmed, a member of Kuwait's ruling Al-Sabah family.

Sheikh Fahd used the Kuwaiti press to criticise the impromptu Saudi decision not to send a team. This was followed by a statement from the Saudi football association which indirectly accused Sheikh Fahd of snubbing the kingdom in his choice of an emblem for the tournament.

The Gulf Cup logo shows two football players with the head of a horse. The horses in question, named Ebyan and Shuweima, won pride of place in Kuwaiti history for their role in a battle 70 years ago, when Kuwait successfully resisted an invasion from what is now Saudi territory.

Not surprisingly, Saudi Arabia, now ruled by descendants of the would-be invaders of 1920, saw this as a deliberate insult.

Local pundits have been quick to come up with deeper political reasons for the pull-out – in particular, the already strained relations with neighbouring Kuwait.

Saudi officials are reported to be worried about the team's security in a country where Shia Moslems, some of them loyal to Saudi Arabia's enemy Iran, are a third of the population.

Local diplomats report several recent attacks on Saudi citizens in Kuwait following the execution of 16 Kuwaiti passport holders for last summer's bombings at shrines in Mecca.

Protesters demanding greater democracy fight riot police outside the Taiwan legislature building in Taipei yesterday.

Fifty hurt in Taipei democracy protest

By Peter Wickenden in Taipei

MORE than 50 people were injured as stone-throwing protesters demanding full democracy clashed with riot police in a running battle around Taiwan's parliament yesterday in some of the worst violence Taipei has seen for years.

Several hundred Democratic Progressive Party supporters blocked the doors of the legislative building to prevent ageing mainland-elected lawmakers from entering to elect a speaker. The DPP controls 21 of the 283 seats in the legislature.

The protesters demanded that the mainlanders, who had been elected more than 40 years ago and still dominate the Parliament, retire to make way for Taiwan-elected members.

They attacked several cars bringing mainlanders to the building and taunted those who arrived on foot. Two private cars were burned and six police cars overturned.

More than 1,500 riot police brought up water cannon and barbed wire barricades and lashed out with clubs. The protesters charged police lines and hurled placards, stones and eggs. More than 40 policemen, about 10 protesters and a reporter were injured and taken into the building for treatment. A 77-year-old legislator, Chiang Kung Liang, had a heart attack and was taken to hospital.

Inside the chamber, the scheduled election of the Speaker and Deputy Speaker of Parliament was postponed as opposition lawmakers took turns to raise petty procedural points throughout the session.

Sporadic violence continued well into the night by which time several fires were burning around the building.

Chaos also reigned again at the plenary session of the National Assembly, held once every six years to elect the president and vice president. The DPP said it planned to disrupt the entire 35-day session and prevent the mainland-elected majority from entering the building to elect the president on March 21.

Pretoria expects new loan deals

By Jim Jones in Johannesburg

MR Barend du Plessis, South Africa's Finance Minister, expects foreign bankers to respond to his country's new political situation by making available new loans and rolling over others due for repayment this year.

Addressing a conference organised by the Frankel, Kruger stockbroking firm in Johannesburg yesterday, Mr Du Plessis said Pretoria was most unlikely to relax exchange controls and restrictive monetary and fiscal policies in the near future even though, as he put it, "There are promising indications that the mostly unofficial financial sanctions imposed against South Africa may be eased."

Late last year South Africa's central bankers negotiated a third debt-repayment agreement, which is due to start in the middle of this year and last for three years.

This year's repayment obligations are somewhere between $2bn and $3bn, though bankers expect foreign creditors will roll over part of their loans, leaving the country to pay little more than $2bn (£1.2bn).

Mr Du Plessis warns that even if debt-roll-overs and the availability of new loans lead to lower-than-expected capital outflows, the policies which have curbed imports and encouraged exports will still be needed. The authorities, he said, would give preference to building foreign reserves to give the Reserve Bank more flexibility in holding the rand at present levels of about 2.55 to the dollar.

Mr Du Plessis said his Government's principal economic targets for 1990 were to reduce inflation rate from last year's 14.7 per cent and to strengthen foreign reserves.

Last year, Mr Du Plessis said, South Africa ran a current account surplus of R4.1bn but suffered a net drop in reserves as capital outflows totalled R5bn.

This year the aim is to generate a current account surplus of R6bn, equivalent to $2.4bn at present, which will permit scheduled repayments of foreign debt and some increase in reserves. Gold and foreign reserves rose to R5.7bn at the end of January from R5.52bn a month earlier, equivalent to only six weeks' imports.

Death toll in Nepal mounts

Nepalese living in India shout protests outside their embassy

POLICE shot dead three protesters in a Nepali village yesterday, the third day of an unprecedented campaign of anti-government protests in the Himalayan kingdom, agencies report from Kathmandu.

State-run Radio Nepal said police had to open fire in the village of Jaddukuha, on the country's narrow Terai Plain bordering India, when a crowd attacked a police station and ignored warnings to disperse.

The deaths bring the toll in three days of confrontation between the authorities and supporters of banned political parties to at least nine.

Lawyers yesterday held a 24-hour strike, alleging civil-rights infringements. Mr Devendra Raj Panday, acting president of the Human Rights Organisation of Nepal said his organisation had a list of names and addresses of at least 1,600 people who had been detained.

However, a government spokesman said 784 people were being held.

In the Kathmandu Valley town of Bhaktapur, where three people died on Monday, protesters held demonstrations demanding police release the bodies for cremation.

There were other disturbances in the remote western hill towns of Baglung and Kaski.

Political analysts said many villages had become hostile to local councils, which they accuse of misappropriating development funds. Students said they were boycotting classes on at least five campuses in the Kathmandu Valley.

The Nepal government has vowed to thwart the campaign for open political activity.

Political parties, banned in 1960, have gone on functioning informally and have united for the first time to launch demonstrations and strikes against the country's partyless system of elected council.

The government has argued that Nepal's partyless system is better suited to the country than a multiparty democracy.

Market-based system for Seoul exchange rate

By John Ridding in Seoul

SOUTH Korea is to change its method of determining its exchange rate, moving to a more market-based system, the Ministry of Finance said yesterday.

The new system, which is similar to that used in Taiwan, will in effect establish an inter-bank market among certain Korean banks to determine the value of the Korean Won against international currencies. The old system, in force since 1980, fixed the exchange rate based on fluctuations of the US dollar and other main currencies.

According to one analyst, the change has been prompted by charges that Korea has manipulated its currency to its advantage. However, he said the Bank of Korea, the central bank, would continue to exert strong influence on the value of the Won.

Under the new system, which has been dubbed the market average rate, and which will be introduced on March 2, the exchange rate for the US dollar will be the weighted average of the rates applied in spot transactions at 90 foreign exchange banks in Korea during the previous day.

● A special session of South Korea's National Assembly broke up in turmoil yesterday as the Party for Peace and Democracy, the sole opposition party, walked out just minutes after it opened.

The Assembly was the first to be convened since the formation of a new governing coalition through the merger of the ruling Democratic Justice Party and two opposition parties. The walkout, by all 70 PPD members, removes any immediate prospect of co-operation between the opposition and the new Democratic Liberal Party.

Cuban troops to leave Angola

CUBA and Angola said yesterday they would resume from next Sunday the withdrawal of Cuban troops from Angola, which had been suspended since January 25, Reuter reports from Havana.

The Cuban news agency Prensa Latina said the decision was made at a meeting of Cuban and Angolan officials in Luanda. Cuba and Angola suspended the withdrawal following an attack by US-backed Angolan rebels in which four Cuban soldiers were killed. The rebel Unita movement said the incident was a mistake and said it would try to prevent it from happening again.

Cuba's military withdrawal from Angola is stipulated in US-brokered peace accords signed with Angola and South Africa in December 1988. The accords also opened the way for independence for Namibia.

More than 31,000 of the 50,000 Cuban troops in Angola have already been brought home. The pullout is due to be completed by mid-1991.

Minister and UDF discuss Natal violence

ANTI-APARTHEID activists held talks with South African Law and Order Minister Adriaan Vlok yesterday in a bid to end conflict between black factions in Natal, where Mr Nelson Mandela will this weekend spell out a message of peace, Reuter reports from Johannesburg.

The conflict between the Zulu-based Inkatha movement and the ANC-allied United Democratic Front (UDF) has cost more than 2,000 lives in the past three years.

Mr Mandela, freed last week from a life jail term for plotting to overthrow white rule, will address a rally in Durban, Natal's biggest city, on Sunday to try to make peace between the rival groups.

Future negotiations between the South African Government and Mr Mandela's African National Congress hinge on a resolution of the Natal conflict.

Pretoria says it will not end a three-year state of emergency until the violence ends, while the ANC refuses to start talks on a new South African constitution until emergency rule is lifted.

Yesterday's meeting between Mr Vlok and a delegation from the UDF and the Congress of South African Trade Unions (Cosatu) are an indication that "talks about talks" to remove obstacles to negotiation will begin soon.

● An "African summit" due to be hosted on Saturday by President Mobutu Sese Seko of Zaire and attended by Mr de Klerk, assumed less significance yesterday as details of the guest list emerged, writes Michael Holman in Johannesburg.

The presidents of Chad, Rwanda, Burundi, and the Central African Republic are expected at the meeting in Eastern Zaire, while the leaders of Togo and Gabon may also take part. This group of African leaders has little if any influence beyond the borders of their own countries.

The most important element may lie in bilateral talks between Mr Mobutu and Mr de Klerk about the conflict in Angola.

South African newspapers have hailed the meeting as a "diplomatic breakthrough" in Pretoria's efforts to establish formal links with black Africa in the wake of Mr Mandela's release.

But South African officials privately acknowledge that the impact of the meeting on southern Africa will be limited. Of far more importance is the stance of the front line states of Angola, Botswana, Mozambique, Tanzania, Zambia and Zimbabwe.

There has been speculation that this group may be prepared to meet Mr de Klerk. But front line leaders are likely to be guided by the views of Mr Mandela and the ANC.

These will be influenced by the outcome of the forthcoming round of "talks about talks" with Mr de Klerk, intended to clear the way for formal constitutional negotiations.

UN protests over killings

THE United Nations said on Tuesday it was lodging a protest with the Israeli Army, which it holds responsible for the killing of two UN peacekeeping soldiers and the wounding of six other troops by pro-Israeli militiamen in Lebanon, Reuter reports from the UN.

A spokesman for the UN secretary general, who called the shooting "unprovoked," said the troops, all from Nepal, were hit late on Monday when the Israeli-armed South Lebanon Army (SLA) opened fire on a mile-long front.

In a statement secretary general Javier Perez de Cuellar said, "This serious and tragic incident again underlines the risks to which UN peacekeepers are exposed."

Hanoi cites US on repatriation

By Roger Matthews in Hanoi

VIETNAM continued yesterday to resist British demands for the forced repatriation of more than 40,000 refugees in Hong Kong classified as non-political by the authorities there.

The main reason given by Vietnam is the opposition of the US Government. Mr Nguyen Co Thach, the Foreign Minister, is understood to have told Mr Francis Maude, Minister of State at the Foreign Office, that his country felt bound to give precedence to improving relations with the US. The two men will hold a further previously unscheduled round of talks today before Mr Maude leaves for London.

For as long as Washington opposes forcible repatriation, Vietnamese officials argue that it would be counter-productive to accede to British demands and damage its prospects of getting the US to lift its aid embargo – which starves Vietnam of the very funds needed for the economic development which would reduce the flow of immigrants.

Mr Maude insisted however that the talks had been extremely useful and said that both sides were anxious to resolve the problem.

But with the Soviet Union and Eastern European countries also considering the future of the estimated 200,000 Vietnamese workers in their countries, Hanoi is anxious not to yield to British pressure without a stronger indication of wider economic benefits.

It is arguing that by appearing to accept the use of force in sending back refugees, Vietnam would further risk alienating itself from the international community.

● Fresh fighting broke out at a troubled Vietnamese detention centre in Hong Kong yesterday, only hours after four boat people were taken to hospital after slashing themselves in protests, Reuter reports from Hong Kong.

Assistant Correctional Services Commissioner Ish Bhagat said up to 60 people armed with makeshift weapons had started fighting in a section of Whitehead Camp, a purpose-built detention centre in Hong Kong's New Territorities housing 20,000 boat people.

Nguyen Co Thach: precedence to improving relations with US

Vietnam accused of torture

By Robin Pauley, Asia Editor

TORTURE and abuse of human rights remain widespread in Vietnamese prisons and "re-education camps" where political prisoners are held – sometimes in shackles and often without trial, according to a report published today by Amnesty International.

The report acknowledges that the Hanoi Government has introduced some legal reforms, including the right to defence by an independent lawyer. But Amnesty remains concerned by serious shortcomings in the judicial process and by conditions in camps in which people were previously held in detention without trial for "political re-education", which took place for at least three years and was combined with manual labour.

Although the criminal code now prohibits detention without trial for "re-education", information gathered by Amnesty suggests prisoners of conscience and political prisoners are still held untried in detention, at least 128 of them since 1975. There could be up to 400 in this position.

The report says at least 40 re-education camps exist, each with a capacity of around 1,000 prisoners. The type of manual labour varies but always includes strenuous work in the surrounding fields, although the average diet contains only half the necessary calories for such work.

Torture persists, although the authorities say it now occurs only in isolated cases. Amnesty reports torture through the use of shackles and leg irons on prisoners in solitary confinement in the re-education camps' "disciplinary houses".

Former inmates reported routine beatings by camp guards using wooden clubs, rubber hoses or rifle butts, for offences including failure to fulfil work quotas. A prisoner held in Ha Tuiyen re-education camp between June 1987 and February 1988 said prisoners were made to lie face down and were then beaten with sticks.

Vietnam: Renovation, the law and human rights in the 1980s; £3.50; Amnesty British Section, 99 Rosebery Avenue, London EC1.

PAN AM 1990
PROGRESS REPORT
NO. 2

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Chairman and Chief Executive Officer
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EC ready to cut duties on 6,700 product lines

By William Dullforce in Geneva

THE EC yesterday indicated it was ready to cut customs duties on some 6,700 product lines as part of a multilateral tariff-cutting exercise in Gatt's Uruguay Round. The formula would cover imports worth Ecu262bn (£125bn) a year and cost Ecu4bn in government revenues.

Brussels has beaten the March 15 deadline set last month for the tabling by all countries in the Round of their proposals for cutting or eliminating current tariffs and binding them at new levels. Trade ministers have set a target of a 30 per cent reduction in the overall tariff level.

The EC submitted a 483-page "illustration" of its intentions, detailing base rates and reductions proposed for each tariff line and spelling out overall impact. Application of the schedule would cut the EC's average customs duty from a present 5.44 to 3.86 per cent.

Farm products, being handled in separate talks, are not included in the EC paper. Tariff cuts on tropical products, important to developing countries, will be negotiated separately. The EC's approach aims at bigger cuts in current high duties than in low duties. In concession bargaining due to start in April, Brussels said its proposals would be "developed, consolidated or reduced" according to its evaluation of other countries' offers.

Mr Tran Van Thinh, head of the EC delegation, said the EC would need pledges that tariff concessions would not be offset by raising non-tariff barriers.

Separately, the EC listed ideas for strengthening co-operation between Gatt, the IMF and the World Bank. It proposed the Round produce guiding principles for co-ordinating trade, monetary and financial policies internationally. To this would be added an accord for co-operation between the three institutions.

Colombia accuses US of flower-trade harassment

COLOMBIA accused the US of trade harassment yesterday in a protest to the Gatt Council over Washington's decision to raise to 8.5 per cent its anti-dumping duty on Colombian cut-flower imports, William Dullforce reports.

The US had carefully and shrewdly orchestrated action to finish off Colombia's flower export business, Mr Felipe Jaramillo, head of Colombia's Gatt delegation, said.

Many trade officials saw the US action as harsh, when Colombia badly needs to diversify exports, in its collaboration with the US in the anti-drugs war. Mr Rufus Yerxa, Deputy US Trade Representative, said the US decision was only preliminary. A final one would come in April.

Colombia is the world's second biggest exporter of cut flowers, mainly chrysanthemums and roses, after the Netherlands. About 80 per cent of its output, worth some $130m (£76m), goes to the US, where producers have complained Colombian growers sell their flowers below production cost. Last month, the US International Trade Commission raised the tariff on imports from 4.4 to 8.5 per cent.

Mr Jaramillo said Colombian flower growers had hardly any state support following agreements after investigations in the US into alleged subsidies. The US Commerce Department had then started an anti-dumping inquiry, leading to the near-doubling of the duty imposed in February, 1987.

Flowers were perishable, and faced highly-volatile prices, so anyone could be accused of dumping at some time. In defining dumping, Washington had compared export prices to the US with those to Europe, without conceding Colombian flowers faced substitute products and high demand elasticity in Europe itself. The US evidence was flawed, based on a sample of only 15 out of 240 producers, Mr Jaramillo added.

Two Germanys in CD deal

ROBOTRON, one of the biggest East German state-owned industrial concerns, yesterday signed a DM235m (£82.4m) joint venture with Pilz, a West German compact disc maker, to build the first CD manufacturing plant in East Germany, Andrew Fisher reports.

The plant, employing 250 people with wages and conditions the same as in West Germany, will have an annual capacity of 24m CDs.

As well as serving East Germany's home market, where demand is likely to be 5m in 1991, the CDs will be exported, mainly to the rest of east Europe. Pilz has a 33 per cent stake, with Robotron having the rest.

The venture will include plants capable of making 100m plastic CD covers a year, much of which will be used by Pilz worldwide.

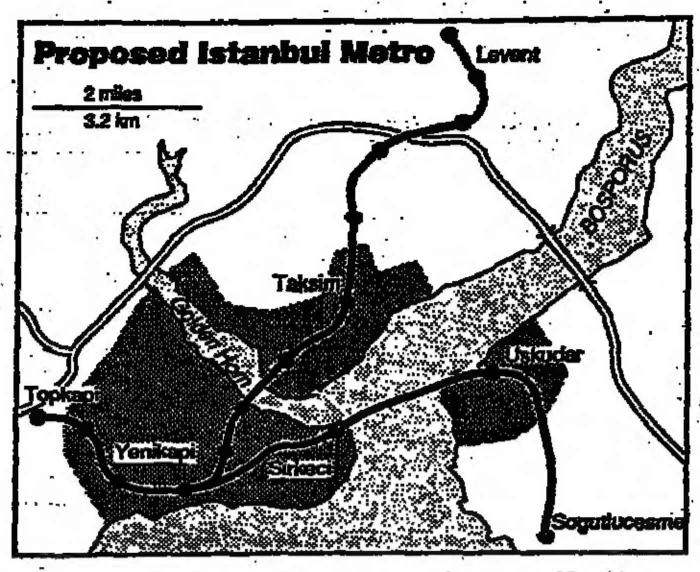
Mr Reiner Pilz, chief executive of the West German company, said this year's demand in East Germany for CDs would approach 1m units.

Istanbul presses ahead with metro plans

THE CITY of Istanbul is pressing ahead with plans to build a metro and a rail tunnel crossing of the Bosporus, together valued at $1.7bn (£1bn), Jim Bodgener writes. Contractors worldwide have been asked to make initial applications for the metro by March 22.

The project should help improve the image the social democrat mayor, Prof Nurettin Sozen, has earned in nearly a year in office of doing little but carp about his predecessor, Mr Bedrettin Dalan. With up to 300,000 people flooding into Istanbul every year, providing adequate transportation is increasingly difficult. This year, the municipality has bought 650 buses from Hungary's Ikarus. Sea transport will be expanded.

For the metro and the tunnel, the municipality has yet to beard the higher echelons of the State Planning Organisation (SPO) and the treasury, the two critical paths through the budgetary process. Municipal officials say both projects



have already been approved by central government as part of a transport masterplan for the city.

Plans for the metro link have been prepared by the US company Parsons Brinckerhoff International under a contract awarded in the mid-1980s, along a 16.2km route from Yenikapi to Levent, including 13 stations and a new bridge. Its estimated cost is $970m. The metro alignment was proposed in earlier designs this century, and would be more cost-efficient than the light-rail transit system built under Mr Dalan, Prof Sozen claims. The latter has peak hourly capacity of 50,000 people, but is only carrying up to 8,000 a day.

The tunnel connection would be 13km long, crossing the Bosporus from Sirkeci in the old city to Uskudar on the Asian side. It will also provide an international rail link.

Unlike the first stage of Ankara's metro project, the Istanbul metro will not be built on the Build-Operate-Transfer (BOT) method of private-sector franchising pioneered by the Turkish government. Officials say other metros have to be subsidised, and the Ankara project is only a partial BOT scheme. The contractor will operate the metro for a year after the six-year construction period, to train staff in its operation.

Government spending squeezes are a key complaint of the social democrat mayors who took over Turkey's main cities in the local elections last March.

US fights Thai cigarette ban

THE US yesterday asked for Gatt adjudication in its four-year-old dispute with Thailand over that country's ban on cigarette imports, William Dullforce reports.

Mr Rufus Yerxa, Deputy US Trade Representative, told the Gatt Council that except for one shipment in 1980, the Thai government had allowed no imports of US cigarettes since 1976.

This clearly violated its Gatt obligations and Bangkok had recognised that its taxes on cigarettes discriminated against imported articles, but the US had failed to resolve the issue in bilateral talks.

Thailand, however, resisted the US request for the establishment of a Gatt disputes panel, claiming the consultation procedure had not been exhausted.

In other business, the Council approved the protocol under which Tunisia will join Gatt and decided to establish working parties to revise the terms of Poland's membership and to negotiate Bulgaria's accession.

Caribbean tourism responds to the winds of change

Canute James in Kingston finds some islanders worried about events affecting the holiday business

Few people on the Caribbean know about the "Siberian Express" – the winter storms with freezing temperatures such as those which hit North America over Christmas. But while the cold was uncomfortable for millions of North Americans, it warmed the hearts of Caribbean hoteliers and the administrators of the region's tourism.

The shivering hordes are always likely to seek refuge on Caribbean beaches, supporting an industry which has become the main pillar of several national economies. Just over 10m tourists visited the Caribbean last year, with the resort countries earning an estimated $7bn from the industry.

But there is growing concern at the volume of arrivals from North America, and the increasing competition which the Caribbean is facing from other regions. A decade ago the US was the source of between 70 and 80 per cent of tourists taking their holiday in the Caribbean. The US market share has declined progressively to 60 per cent today.

The region has increasingly looked towards western Europe, aided by aggressive marketing and changes in currency values, to make up the US decline. One compensating factor is that Europeans tend to stay longer and spend more money in the Caribbean than do North Americans.

However, hoteliers in the region fear that a successful effort to increase the volume of tourists in the low season – the northern summer – will be undone by the political changes which have swept eastern Europe in the past six months. "Both North Americans and Europeans will hardly pass up a chance to visit these eastern European countries in the summer," suggested one Jamaican hotelier.

"The attraction of looking at countries which have literally been locked away from them for so long is understandable. They may not want to go in the winter, but they will in the summer.

"In addition to which millions of North Americans, particularly in the US, have their ethnic roots in eastern Europe. We in the Caribbean will suffer from this."

This view is discounted by the region's tourism administrators. "I think that our main competitors will remain the warm weather destinations in the world such as Mexico and places in the United States like Florida, the Indian Ocean and Africa," said Mr Jean Holder, secretary-general of the Caribbean Tourism Organisation (CTO).

Barbados and the Dominican Republic are two destinations which have been making the most of the growing European market. Charter companies have been increasing the number of flights to Barbados from parts of Britain, while the Dominican Republic is favoured by growing numbers of visitors from France, Spain, the Netherlands and Austria.

In the face of the potential of eastern Europe and other traditional resorts to cut into the Caribbean's market share, the region is trying to develop new markets.

The CTO recently sent a mission to Japan to explore the possibilities of substantially increasing the small number of Japanese tourists who visit the region. The mission concluded that a breakthrough in the Japanese market would depend on changes in such areas as air fares, over which the Caribbean region has no control.

There appears to be little worry in some parts of the Caribbean that the growth in the tourism industry will not continue. The Dominican Republic, for example, which earned an estimated $650m from tourism last year, is expanding its number of hotel rooms by 16 per cent, and will have 18,500 rooms by this year.

While there is agreement that the growth in the industry will continue, there is concern that room capacity is already unevenly distributed, and that many countries, such as Grenada, are desperately in need of more rooms to fully exploit its potential as a resort.

Another ambitious development is being watched closely by the region's tourism administrators. Cuba, which is not a member of the CTO, is hoping to spend about $400m building new hotels and rehabilitating existing ones, and constructing airports – all part of the government's effort to get more out of an industry which was important to the island's economy before Fidel Castro's revolution, but which has suffered since.

The intention, now that other sectors of the economy have been under pressure, is to lift the volume of tourists to at least 600,000 in four years, increasing earnings to about $300m per year, according to Cuban officials.

The immediate prospects for the current Caribbean high season are quite promising. The CTO is predicting a two per cent increase in visitor arrivals to the region during the high season which runs from mid-December to mid-April.

It expects little or no growth in visitor arrivals from the United States, and says the Canadian and European markets will show marginal increases.

Koyo Seiko to build UK ball bearing factory

By Charles Leadbeater, Industrial Editor

KOYO SEIKO, the leading Japanese ball bearings manufacturer yesterday announced plans to invest £50m to build a plant at Barnsley, in the heart of the South Yorkshire coalfield in northern England, reknowned as one of the most militant areas in the British coal industry.

The plant will eventually employ about 400 people in an area which has lost 15,000 mining jobs as a result of pit closures since the end of the 1984-85 miners' strike. It will be built in a business park created by a £6m land reclamation scheme at the former site of Dodsworth colliery which closed in 1985 with the loss of 1,000 jobs.

The Koyo Seiko investment is a significant boost for attempts to attract inward investment to redevelop Yorkshire and Humberside's industrial base after the contraction of the region's traditional steel, coal and engineering industries.

Koyo Seiko's plans mean that Japanese manufacturers will take up an increasingly significant role within the British ball bearings industry. It comes little more than a month after Nippon Seiko (NSK), Japan's top ball bearings manufacturer agreed to pay £145m for United Precision Industries, the largest British owned bearings manufacturer.

Mr Saburo Uneo, Koyo Seiko's executive vice-president said the plant's output would replace about 35 per cent of the company's current exports from Japan to European customers such as Mercedes Benz, BMW and Opel. The company decided to invest in Europe mainly because the strength of the Yen was cutting margins on exports and it feared that after 1992 there would be tighter restrictions on Japanese imports. The plant will start production next year with 50 per cent of its output using local UK content, rising to 75 per cent.

Although Koyo Seiko has close links with Toyota, the Japanese car manufacturer, which is building an assembly plant near Derby, Mr Ueno said the Dodsworth plant was designed to serve existing customers rather than the greenfield Japanese car plants.

Barnsley won the investment in stiff competition with a location in the Netherlands, where Koyo Seiko was offered more than twice the £3.5m in government subsidy it will be provided with under the UK Government's regional selective assistance programme.

● Richard Tomkins writes: Keiper Recaro, a leading West German car seat maker, is to set up a manufacturing plant in Birmingham which is expected to employ more than 300 people by the mid-1990s.

Its £5m plant will initially employ 96 people making the mechanisms at present imported from the parent company.

Where hostile bidders dare to tread, the 'bugs' too often follow

IT IS too early to know whether the "listening device" Laing Properties, says it found in a senior executive's office has any connection to the hostile takeover bid the company faces, writes Clay Harris.

Electronic "sweeping" to check for bugs is a costly exercise. One merchant bank, which says it routinely has its offices swept quarterly and sometimes as often as once a week during particularly hotly contested bids, estimates the cost at £25,000 a year.

But there was considerable scepticism yesterday about how frequently such devices are used and even how useful they might be in a contested bid. One banker said, half in jest, he would much rather know what large shareholders were saying rather than be privy to directors' musings.

Nevertheless, the discovery of the bug focuses attention on the frontier between illegal snooping and genuine "due diligence" investigations.

A bidder and its advisers must assure themselves about the target's financial status, as Ferranti found to its cost with International Signal and Control.

From Laing's announcement, it is not even clear whether an offence had been committed. The possession or mere placing of eavesdropping devices is not illegal in the UK, according to Mr Alastair Kelman, a barrister specialising in computer law. Electronics shops openly display and sell them without restriction behind the figleaf of "for export only" signs.

An offence is committed, however, if the device is activated to monitor conversations.

The most famous bugging operation related to a contested UK bid came in 1986 shortly after Woolworth Holdings (now Kingfisher) successfully defeated an offer by Dixons.

Three men were convicted in 1988 of placing the bug which was found – in a biscuit tin – connected to the telephone line outside the home of Mr Peter Hopper, buying director for Woolworth's Comet subsidiary. One told the court he had been hired by Dixons to investigate former staff. Dixons itself never commented on the case.

Other methods of surveillance, although equally distasteful, are not illegal and are perhaps less susceptible to detection. They include infiltration of contract cleaning companies and having executives followed. Disgruntled employees also flood combatants in a bid with offers of information; these rarely turn out to be useful, bankers say.

More common is a detailed investigation of published information, plus talk about the marketplace to ascertain the reputation of a company and its key executives.

This is not always completely above board. The inquisitive corporate headhunter or management consultant may be less, or more, than he seems.

Such "research" can, however, produce useful information. In the battle for Distillers in 1986, for example, investigators discovered that the Harvard degree which Mr James Gulliver of Argyll Group had claimed for years did not exist. The revelation probably had no bearing on the outcome of the bid, which was won by Guinness, but it cast doubt on Mr Gulliver's credibility at a critical juncture.

Directors cannot even trust their boardroom colleagues. After Dominion International Group collapsed earlier this year, it emerged that the financial services company's former chairman had engaged detectives to follow two fellow directors who had attempted to mount a coup against him. The exercise cost more than £100,000 and found nothing of consequence according to Dominion's new management.

Laing's discovery will provoke a few days of excitement about eavesdropping, followed by more business for "security consultants".

Whether it gives a firm indication about the current state of corporate morality is far less certain.

Thatcher told of risk of disaster over local tax

By Philip Stephens, Political Editor

MRS Margaret Thatcher accused local councils in the UK of extravagant increases in spending as her supporters at Westminster warned that the replacement of the rating system of local government finance by the new "poll tax" risked turning into a political disaster for the Government.

Senior Conservative Party managers said yesterday that morale among backbench MPs and grassroots supporters around the country had slumped amid mounting protests from constituents against the expected levels of the tax when it is introduced in England and Wales on April 1.

Mrs Thatcher appeared to acknowledge that, on present trends, the average level of the annual community charge, or poll tax, could turn out to be about £90 higher than the £278 per person forecast by the Department of the Environment only a few months ago.

A charge at that level of £370 would add about 0.75 points to the retail price index which, alongside the recent rise in mortgage rates and other prices increases in the pipeline, could push the inflation rate over 8 per cent.

The Government is expected to delay the impending by-election in Mid-Staffordshire until after the Budget on March 20 in the hope that the furore may have begun to subside. The most favoured dates for the poll, which follows the death of the sitting Conservative MP, are March 22 or March 29.

Ministers, however, believe the combination of the high mortgage rates and the poll tax will anyway threaten what would normally be regarded as an impregnable majority of 14,600.

As two solidly Conservative local councils - Kensington and Chelsea and Redbridge - both in the London region, joined scores of others around the country in announcing charges well above those recommended by the department, Mrs Thatcher said the blame rested firmly with the local authorities.

During angry exchanges with Mr Neil Kinnock, the opposition Labour Party leader, in the House of Commons, she accused the authorities of using the switch from the rates as a cover to boost their spending and shift the blame on to the Government.

Labour councils were most at fault but, in an explicit rebuke to some Conservative-controlled authorities, she said councils of "whatever political complexion" should keep their public spending down.

The Prime Minister added that the Government intended to publish figures showing what the equivalent rise in rates would have been if the Government had not switched to the poll tax. The present trend suggested that households would have faced increases of about 35 per cent in their rates bills, she said.

The growing unease among backbench MPs, however, was articulated by Mr Anthony Speller, Conservative MP for Devon South, who asked Mrs Thatcher what had "gone wrong with the arithmetic relating to the community charge?"

Other backbenchers have told party managers that they are finding it impossible to defend the charge in their constituencies and they are predicting heavy losses for the Government in the May local elections.

Many are pressing Mr Chris Patten, Environment Secretary, to use his legal powers to "cap" the spending of their authorities to force down the level of charges. Ministers, however, are playing down earlier suggestions that more than 100 authorities might be capped.

Mr David Blunkett, Labour's local authority spokesman, said that Mr Patten had been forced to recognise that such a move would create administrative chaos and would force many local authorities to cut spending on crucial services such as education.

Mr Patten is to press the Treasury for a large injection of additional funds for local authorities next year but that will not take the political "sting" out of this year's charges.

Guinness trial told of "very close" links between Tom Ward and Ernest Saunders

Jury told of decision to compensate Margulies, ZKB

By Raymond Hughes, Law Courts Correspondent

MR Ephraim Margulies, chairman of Berisford International, asked only for "some kind of help and comfort" in the future from Guinness when he agreed to support its takeover bid for Distillers, the jury in the Guinness trial in London heard yesterday.

However, said Mr Olivier Roux, Guinness's director of finance at the time of the bid, when Mr Margulies lost money on the sale of Guinness shares he bought during the bid, Guinness decided to compensate him.

Mr Roux is the first witness in the trial in which Mr Ernest Saunders, former Guinness chief executive, Mr Gerald Ronson, chairman of the Heron group, Mr Anthony Parnes, a City of London stockbroker, and Sir Jack Lyons, the millionaire financier, have denied criminal offences in relation to an unlawful share support operation allegedly mounted by Guinness during its 1986 battle with Argyll for Distillers.

"The commercial decision was taken that Guinness ought not to leave a major debt behind. We could not predict the way the debt might be called in," Mr Roux said.

He said it had been clear that Mr Margulies' support for Guinness was going to cause Mr Margulies a fairly major loss.

Although the "debt" was neither contractual nor enforceable, "I was concerned that Mr Margulies might put a lot of moral pressure on Guinness later for help and that might lead to Guinness losing a lot more money than the loss Mr Margulies had sustained," Mr Roux said.

Mr Roux said that in mid-June 1986 Sir Jack Lyons had told him that Zentralsparkasse Und Kommerzial Bank – ZKB – an Austrian bank which had been a Guinness supporter during the bid, had lost about £250,000 when it sold its Guinness shares.

Mr Roux said Mr Saunders had agreed to compensate ZKB.

Asked about the relationship between Mr Saunders and Mr Tom Ward, a US attorney and non-executive director of Guinness, Mr Roux said it appeared to be "very close and very friendly. I formed the impression that Mr Ward was one of the closest business associates of Mr Saunders. Mr Saunders appeared to rely on Mr Ward's advice."

Mr Roux said that Mr Ward had performed many roles during the bid. He had been in touch with the US side of the share support operation – first with Mr Meshulam Riklis, chairman of Schenley Industries, the drinks distributor, and then with Mr Ivan Boesky.

Mr Roux said that after the bid succeeded Mr Ward told him he needed £5.2m to pay bills incurred in the US.

Mr Ward had said that an invoice for £5.2m would come from Marketing & Acquisition Consultants, a Jersey company to which Mr Ward's one-off $100,000 had been paid, because Mr Ward wanted to "maintain confidentiality."

Mr Roux said he checked with Mr Saunders to be sure that none of the £5.2m was going to Mr Ward himself. That was because Mr Ward was a Guinness non-executive director and directors' remuneration had to be approved by the board.

Mr Saunders had told him that the money was not for Mr Ward and that the invoice should be paid.

Mr Roux said that his understanding had been that the payment was for work done under Mr Ward's management in the US.

He added: "That seemed to be also Mr Saunders' recollection."

The trial continues.

Somewhere beneath the Channel machines rumble

Andrew Taylor considers the financial and engineering difficulties ahead for Eurotunnel

THE MASSIVE tunnelling machines gouging out the chalk marl beneath the British and French coasts have continued to thunder in spite of the unseemly boardroom row over management of the construction contract for the Channel tunnel.

The differences between Mr Alastair Morton, Eurotunnel's combative chief executive, and the chairmen of the construction companies digging the 50km tunnel, have produced a fascinating drama which has even managed to involve the Bank of England.

But the split over Mr Morton's appointment and public rowing over his style have diverted attention away from a series of critical financial and engineering difficulties which still have to be resolved.

If Mr Morton is guilty of a tactical error, it is that his uncompromising public criticism of the contractors has allowed the construction companies to turn the debate into one about his personal style rather than the fundamental issues of the escalating cost of the project and the performance of the contractors.

Eurotunnel, the publicly quoted Anglo-French group which won a 55-year concession to finance, build and operate the tunnel four years ago, has appointed a new project management team which must start to resolve some of these issues with the contractors in order to attract more investment from banks and shareholders.

Construction costs have risen to £7.2bn compared with an original forecast of £4.8bn. This leaves a shortfall of more than £1bn to find in addition to the £6bn in loans, standby credits and equity negotiated by Eurotunnel in 1986 and 1987.

Later this year, Eurotunnel is expected to look to raise up

Construction costs have risen to £7.2bn compared with an original forecast of £4.8bn. This leaves a shortfall of more than £1bn to find in addition to the £6bn in loans, standby credits and equity negotiated by Eurotunnel in 1986 and 1987

to a further £1.5bn – mostly from international banks but also through a rights issue – to cover the extra cost of construction. Before they part with their money, banks and shareholders will need to be satisfied that:

● Costs will not rise further.

● The cost of meeting safety and operational requirements will not alter the financial dynamics of the project.

● There will be no more construction delays and that the target date for opening the tunnel – June 15 1993 – will be met.

● Revenue from ticket sales will be sufficient to give investors an adequate return in spite of the increased cost of construction.

To be fair to Eurotunnel, nobody can be really sure of how much extra traffic the tunnel will generate when it opens in three years time.

As one London manager of a Japanese bank said in 1987: "You drive down to Dover to see the long queues of cars and lorries waiting to board ferries for the Continent and you are either impressed or you are not."

The Japanese bank was impressed. It is among a group of Japanese banks which have provided about a quarter of the £5bn of loans and standby credits negotiated with more than 200 international banks.

There are also differing views among analysts about what fares should be charged and how these will compare with those likely to be set by ferry companies. Eurotunnel's prospectus forecasts a real return of 17 per cent for investors over the life of the 55-year concession. Higher construction costs will, if nothing else, delay the payment of first dividends to shareholders.

The size of the construction bill will depend, in part, on how financial claims made by Transmanche against Eurotunnel, are resolved.

These will be subject in the coming months to normal arbitration procedures which are provided for in many construction contracts. The claims which will be dealt with individually, however, could go to litigation if the two sides still cannot agree.

Mr Alan Cleary, director of legal services for the British Building Employers Confedera-

Modifications to tunnel boring machines digging the main tunnels under UK coast have doubled the progress rate. More than 4km were dug by UK tunnelers in the six weeks since January 8, compared with 2km between October and November

tion, said: "In the majority of cases, disputes are settled on site, usually by a compromise, to avoid the cost of long delays while legal action is pursued." Individual contractors will have to decide whether to include in their accounts provisions for possible future losses on the construction contract.

Meanwhile modifications to the tunnel-boring machines digging the main rail tunnels under the British coast have doubled the rate of progress. More than 4km were dug by British tunnellers in the six weeks since January 8. This compares with just 2km by British engineers in the six weeks between October 1 and November 5 last year.

Progress on the French side, making the same comparisons, improved from 2.7km to 3.3km over the same period. By yesterday about 58km of the three tunnels had been completed representing just under 40 per cent of the tunnelling. More than 35km of the service tunnel has been completed leaving just 14km to go.

Altogether more than £1.5bn has been spent on building the project. Most of those working on the project believe that work is so far advanced that it would be very difficult for the contractors or bankers to pull out in spite of a warning by Mr Andre Benard, Eurotunnel chairman, that the project could still fail.

The difficult ground from 2km to 5km out from the Kent coast will soon be behind the UKh engineers. Conditions should then improve judging by the experience of the service tunnel. The service tunnel, linking Britain and France, is due to be completed by December provided this ill-starred project hits no further problems.

UK NEWS

Anglo-Irish leaders seem unlikely to produce framework for inter party talks

Hopes recede for political agreement in Ulster

By Our Belfast Correspondent

HOPES for political progress in Northern Ireland in the immediate future receded yesterday after Mr John Hume, leader of the nationalist Social Democratic Labour Party, firmly ruled out suspension of the Anglo-Irish Agreement to allow inter party talks to begin.

Speaking after a two-hour meeting with Mr Peter Brooke, Northern Ireland secretary, Mr Hume challenged Unionists to "get their act together" and speak with a united voice.

Mr Hume said there was no question of the Agreement being put into "cold storage" to allow talks between constitutional leaders to begin, a key demand made by Unionist leaders the Rev Ian Paisley, and Mr James Molyneaux, when they met Mr Brooke on Monday.

Mr Brooke admitted yesterday that inter party talks were a possibility rather than a probability although his discussions with party leaders had brought the debate into sharper focus.

However, it appears that the views of the various party leaders are unlikely to produce a framework for dialogue. Mr Paisley and Mr Molyneaux insist that the British Government must declare its willingness to replace the agreement with a new negotiated settlement and that the accord becomes inoperative during such talks.

Mr Hume's position remains that he is prepared to enter talks without preconditions about a possible new agreement that would "transcend in importance" anything reached before. The SDLP leader said Mr Brooke had not raised the question of suspension during yesterday's meeting.

The Unionist leaders have agreed to meet Mr Brooke again next month after he has considered suggestions made on Monday.

Meanwhile reports from Dublin that the IRA is ready to enter talks with the British Government were discounted by Sinn Fein, the IRA's Political wing in Belfast yesterday.

A Sinn Fein spokesman said the party did not believe the statement had been made by a bona fide spokesman for the Republican movement. Mr Brooke also reiterated there was no question of the Government speaking to Sinn Fein while it maintained its support for terrorism.

In a separate development yesterday Mr Brooke reaffirmed his support for the Ulster Defence Regiment in the light of Monday's Panorama, a BBC current affairs programme, which highlighted court cases in which soldiers from the Regiment were convicted of terrorist offences against Catholics.

Mr Brooke said a large part of the programme dealt with an individual who has since left the Regiment and that the vast majority of members served the entire community of Northern Ireland.

Mr Paisley, who is handing in a petition to Downing St today, has demanded a meeting with BBC chairman Mr Marmaduke Hussey to register what he called his disgust at the programme's unfair treatment of the Regiment.

Belfast shipyard privatisation prompts new row

By David White, Defence Correspondent

THE GOVERNMENT faces another row over its handling of privatisation following charges of "subterfuge" in the way a £22.5m compensation payment was made to Harland and Wolff, the Belfast shipyard, at the time of its transfer to the private sector last year.

The charges, in a fiercely worded report from the Commons Defence Committee, come amid a continuing political controversy over "sweeteners" paid to British Aerospace in the 1988 privatisation of the Rover Group.

The cross-party committee attacked what it described as "at best sharp practice" in the way the Government obtained parliamentary authority for the payment. "The evidence before us suggests that a subterfuge has been attempted upon parliament," it said.

The payment, to settle a claim by the shipyard against the Ministry of Defence for causing delays on a contract, was included in a "supplementary estimate" presented to parliament in November. This was just after completion of a management and employee buy-out of Harland and Wolff, backed by Mr Fred Olsen, the Norwegian shipowner.

The shipyard had claimed a total of £45.3m in reimbursement of costs on a 1984 contract to convert a container vessel into an aviation training ship capable of carrying helicopters and jump-jets.

The £22.5m payment made by the MoD was taken from an underspend on other naval procurement programmes.

However, the committee said the payment was "substantially greater" than the MoD regarded as justified. The real reason for it was fear that the privatisation plan would fail and that the shipyard would close. This would have meant breaking off work under way at Harland and Wolff on a £130m auxiliary oiler replenishment ship contract, one of two vessels under construction at the Belfast yard.

The MoD reckoned that completing this contract in another yard would have cost an extra £20m.

Harland and Wolff was to use the £22.5m payment to help repay grants from the Northern Ireland Department of Economic Development. However, the department would not gain from this since its public expenditure provision was being reduced by the same amount.

The committee was told by officials that the money would find its way back into the MoD budget in provisions for the new financial year starting in April. It described this accounting process as "a bizarre fiscal gavotte."

The committee also attacked the MoD's "hasty and muddled" handling of the £49m conversion project which gave rise to the shipyard's claim. The price for transforming the container ship Contender Bezant, which was converted from trade use during the 1982 Falklands crisis, into the Argus, a training ship with a flight deck, was "very substantially below" a rival bid from Cammell Laird of Birkenhead.

It said the MoD was "indifferent to the extent to which Harland and Wolff's price was indeed realistic, in the full confidence that another government department would be standing by with public funds to cover any losses made."

The ministry also made "an unfortunate misjudgment" by giving the shipyard responsibility for choosing electronic systems for the vessel, it said.

Mr Michael Neubert, the junior defence procurement minister, accused the committee of using "funny phrases to attract the headlines."

Speaking on BBC Radio 4, he said the story had had a "happy ending." No public money had been lost and "the MoD ended up with a ship judged to be a success." There was nothing "untoward" in the transfer of funds between Government departments.

Industry caught in the winds of world change

Between 80 and 100 important trees were blown over at London's Royal Botanical Gardens at Kew during January's storms closing the gardens several days. There are increasing fears of further damage as the world's weather becomes increasingly volatile

Insurers urged to weather the increasingly frequent storms

By Patrick Cockburn

THE insurance industry must accept the fact that world weather conditions have become more volatile and must seek to reflect increased claims in its premiums, according to Mr Graham Dimmock, a senior manager at Swiss Re, Europe's second largest reinsurance company.

Regardless of whether the greenhouse effect really existed, the insurance industry was having to cope with bigger and more frequent climatic catastrophes, he said.

Addressing the Insurance Institute of London Mr Dimmock pointed out that in the UK the seven warmest years since temperature records began had all been in the 1980s.

In ascending order of temperature these were 1986, 1980, 1989, 1981, 1983, 1987 and 1988. Winters were getting colder with freezes in 1981, 1982, 1984, 1985 and 1987.

One explanation for the greater volatility of climate might be that 1910–1960 was the mildest 50 year period in the past 1,000 years. But this period was also when insurance companies assembled the weather data on which their premiums and expectations of loss are based.

Mr Dimmock said that one problem about predicting changing weather patterns and the amount of insured damage they might inflict was that the reinsurance industry had traditionally neglected windstorm research for research into earthquakes, particularly their impact on California and Japan.

Mr Dimmock said that given the present overcapacity in the insurance market it was unrealistic to expect insurers to make dramatic increases in pricing until more disasters had occurred. In the long term, however, Mr Dimmock said: "We have to react to changing weather patterns with a pricing response or our shareholders might eventually decide there are better ways to deploy capital."

Since the October hurricane in the United Kingdom in 1987, with insured damage of £1.8bn, insurers and reinsurers have been hit by Hurricane Hugo in the Carribean and the United States ($9bn) and the storms which have hit the British Isles and western Europe in January and early February.

Mr Dimmock said it was still too early to calculate the losses from the storm on 25-27 January with industry estimates for the continent and the United Kingdom varying between £1.4bn and £2.3bn. Some £300m-£400m of this was in Germany

Further windstorms in West Germany and France on 3-4 February inflicted some £550m in insured damage.

Corporate renewal

How Boeing is struggling to re-tool itself

The US aircraft maker is rejecting paternalism and streamlining its design and manufacturing processes. Roderick Oram reports

At 435 tons, a fully-laden Boeing 747-400 is just as strong as it looks. But its durability comes not only from complex structural pieces but also from thousands of small, hand-crafted "shims".

Ranging from thin pieces of foil up to intricate chunks of metal, the shims ensure a perfect and stress-free fit between parts. But they also wreak havoc with construction costs. Making them is a time-consuming job for the most skilled machinists on the assembly line. "Sometimes it costs as much to make the shim as the part," says Mort Wahlin, Boeing's director of operations technology.

The components meet exacting manufacturing specifications but tiny differences between them multiply as the parts are built up into an aircraft, thus requiring shims. Until recently, workers on Boeing's 737 and 757 lines, for example, were spending up to a quarter of their time making shims or otherwise reworking or fine-tuning parts and assemblies.

These inefficiencies plus increasing competition from Airbus Industrie, the European aircraft-making consortium, were keeping Boeing's airliner profit margins down around 3 per cent. It needed to generate more money to help fund its multi-billion dollar aircraft development programmes. For example, it is considering whether to launch the 777, a twin-engine wide-body jet.*

Frustrated in its attempts to improve productivity, Boeing began to realise a few years ago that only a complete change in the way it designed and made aircraft would bring big savings in time, money and materials and also improve quality.

Devising and implementing these new processes depends heavily on a gradual change in Boeing's culture. Half-way through a five to seven year transition period, it is trying to turn itself from a paternalistic institution into a more co-operative enterprise.

A key element is to give workers more responsibility and autonomy so unwieldy management structures can be pruned. "A semi-authoritarian type of management structure is just not suitable" for achieving big productivity gains, says Frank Shrontz, the chairman.

The goal where design is concerned is to simplify parts and assemblies and to make more components common to different aircraft models. Engineers will be forced to justify, say, a new fuel system for the 777 rather than adapting the 747's. Computer-aided design is helping to achieve this, for example, via three-dimensional modelling of assemblies on screen.

So far Boeing has designed only sections of aircraft on screen. But if it decides to launch the 777 soon, it plans to do away entirely with blueprints and computers will store all the engineering data.

It is a big step to design an entire aircraft by computer, "but I don't see this as a risk," says Phil Condit, executive vice president of manufacturing and head of the 777 programme. "It's a big organisational task but the opportunities are staggering."

When subcontractors have run into difficulties, Boeing has dispatched as many as 60 of its people to help sort out the problems. 'We're partners — it's no longer a weekend romance'

Boeing has already simplified some assemblies on existing models. One of the first projects was the 737 door which, because of the long life of the aircraft model, had had its roots in 1960s technology. The result was a highly intricate assembly with hundreds of parts. "It would make you cry to watch them put it together," Wahlin says.

On manufacturing technology, Boeing believes it can further develop many of its existing techniques rather than seek radical new ones. Through a better understanding of processes and the variables that create minute differences in parts, "we're trying to create perfect processes," says Wahlin.

"Some processes are already dramatically better today than they were three years ago," says Condit.

A key approach is greater use of optical, laser, tactile and other sensors to detect deviations earlier. Wahlin uses the example of wings on 757 airliners. They are attached to the fuselage with some 120 bolts. The bolt holes require utmost precision because of the big temperature changes and huge loads on the bolts during flight. Even the most skilled machinist used to have 25 per cent of his holes rejected on a very expensive and critical component.

But by using a new electrical sensor, deviations are detected and corrected even as each hole is drilled. The rejection rate is now less than 0.5 per cent.

Since some 60 per cent of the parts that go into a Boeing airliner are made by outside contractors, the company is beginning to implement these new ideas with its subcontractors. Each month it buys in 75m parts of 82,000 types from some 3,800 suppliers.

"Over the past three years we've gone from an adversarial role to a close working relationship with suppliers," says Jim Blue, vice president of Boeing's materials division. The old-style Boeing beat them down on price and gave only short-term contracts for, say, parts for just 25 aircraft at a time.

The new-style Boeing is signing contracts for up to 10 years which encourages suppliers to invest in machinery and work with Boeing on improving the quality and price of parts. When subcontractors have run into difficulties, Boeing has dispatched teams of as many as 60 of its people at its expense to help sort out the problems. "We're partners — it's no longer a weekend romance," Blue says.

One goal is to get suppliers, where possible, to take full responsibility for quality, thus relieving Boeing of time-consuming inspections on receipt. Recently it was able to drop such inspection on 1,000 items that had had a zero defect rate over the past 12 months.

Clearly one of Boeing's over-riding goals is to concentrate skills higher up the production process by relying more on computer-aided design and manufacture. It looks as though it has youthful engineering talent to tap. Fully 70 per cent of its engineers with master or doctoral degrees are younger than 38.

If more sophisticated manufacturing processes can turn out more perfect parts, less-skilled workers can assemble them. Skill dilution has become a critical issue for Boeing over the past few years as it virtually doubled its workforce to meet booming demand. At its worst on the 747-400 line, 60 per cent of the 20,000 workers had less than two years' experience making aircraft.

The production build-up hurt quality throughout the company. "I'm not proud of our quality record recently," says Dean Thornton, president of Boeing Commercial Airplane, the airliner subsidiary.

Boeing is now back to turning out high quality aircraft but it still relies too heavily on tinkering with things until they are right. The longstanding attitude has been "hell, give me more people and budget and I'll fix it," says Jim Johnson, head of Boeing's Renton division which makes 737 and 757 airliners.

The company is trying to change that with its new emphasis. Simplified designs and better manufacturing techniques should build in higher quality from the outset. Johnson's division, for example, aims to cut rework of parts by 30 per cent this year and a total of 80 per cent by 1992.

The high level of rework meant that employees used to spend as much as 28 per cent of the time getting something right rather than furthering an aircraft's construction. That is now down to 18 per cent, Johnson says.

Improved training and motivation is an integral part of the new processes. Like many other authoritarian companies, Boeing now talks of "empowering" the workers. By giving them more opportunity to express their ideas and more responsibility for their work, Boeing believes it can increase their efficiency.

Johnson cites the example of inventories in his division. During each shift, a production line worker repeatedly leaves his aircraft to pick up tools and parts from bins in a nearby store. Three years ago, workers in some areas had only a six-out-of-ten chance of picking up the right quantity and type of item from a given bin. By giving inventory clerks responsibility for keeping parts bins full, the success rate is up to 90 per cent and Boeing is shooting for the high 90s.

In a more complex operation, it is drawing shopfloor workers, managers and engineers together in design-build teams. The idea is that the engineers get a dose of realism from the people who have to carry out their plans. It has used, for example, 10-person teams to help design and set up a $250m sheet metal fabrication plant due to open this spring south of Seattle.

The plant will employ 2,500 people compared with 3,500 in the facilities it will replace. If everyone co-operated in designing the new plant, surplus workers would be redeployed rather than fired, Boeing promised.

Its normal policy is to shed workers as soon as they are surplus to immediate needs. But Boeing executives do not seem to understand a key contradiction of its employment policy: it wants to tap workers' enthusiasm and ideas but it will not offer them any security. "We peel people right off ... and that's done on a weekly basis," says Larry McKean, vice president of personnel. "It's too expensive to keep them on."

To keep labour costs down, it also makes workers put in long hours of mandatory overtime rather than hire more staff. Resentment over this helped to fuel the 48-day strike last autumn. Under the previous labour contract, the company could order employees to put in 200 hours of overtime a quarter; under the new agreement compulsory overtime has been reined back to 140 hours.

Just as the huge influx of young, inexperienced workers has diluted Boeing's production skills over the past few years, it has also diminished the pride in company and product the company had traditionally enjoyed.

If Boeing is to pull off the compete overhaul of the way it designs and makes aircraft, it will have to work almost as much on employee relations as manufacturing techniques.

There is one other big caveat: only a few of the changes Boeing is making are big leaps of technology or technique. But cumulatively they represent a huge shift for a company that admits it has lived by cautious evolution not rapid revolution. Never before has Boeing tried to do so much at one time.

It acknowledges it has a long way to go in making the panoply of changes necessary for its future prosperity. Frank Shrontz says: "We've seen some spotty results — pockets of success, some dramatic — but not yet across the organisation."

*The clouds close in on Boeing, this page, February 19.

Assembly of the 747-400: Boeing wants to increase its efficiency by giving its workers more responsibility

Coming into the fold

ONE OF the main design challenges facing Boeing is the development of a folding wing for its proposed 777 wide-body twin-engine airliner.

Boeing has been actively studying the design of a 20 ft folding part at each end of the wings. The concept is similar to the folding wings often found on military jets operating from aircraft carriers.

The principal advantage of folding wings would be to enable the 777 to operate from airports with small terminal gates. Some of Boeing's biggest customers fear that the huge wing span would have difficulty fitting into the existing gates of some of the hub airports currently operating DC10 or Lockheed L1011 trijets which the 777 is due to replace. The wing span of the 777 is expected to total around 198ft compared with the 165ft wing span of a DC10.

Boeing claims it can develop folding wings without penalising overall performance too much. Dean Thornton, president of its commercial aircraft division, concedes there is a "big trade" between performance in the air and adaptability on the ground.

"The airlines asked us not to sacrifice performance. So we looked at folding wings and found the penalty was not that great," he explains.

But Boeing's two main competitors, McDonnell Douglas in the US and Airbus in Europe, claim that folding wings entail significant disadvantages because they add weight while the folding mechanism is likely to cause maintenance and wind factor problems. Airbus dismissed the idea for its A-330 twin-engine wide-body aircraft several years ago and McDonnell Douglas took the same view for its MD11 trijet.

***Folding wings could complicate* further the development of an already complex wing structure for the 777 capable of carrying huge jet engines with diameters of 120ft or more to provide the necessary thrust to power the wide body.**

The novelty of the concept is likely to raise major airworthiness certification problems. Regulatory authorities are expected to insist on a lengthy and costly certification process to satisfy themselves of the safety of folding wings. This means that potential customers wanting to use the 777 on non-stop long-distance routes will have to wait even longer.

So Boeing is considering two versions of the 777: standard wings; and folding wings for those of its customers with gate constraints. But most analysts expect only limited demand for the latter.

Paul Betts

TECHNOLOGY

Publishers get their noses into an IT epic

Clive Cookson describes the troubled history of computerised book production

The Quincunx, an epic novel about Victorian life, may be the first best-seller to owe its existence in print to information technology.

The author, Charles Palliser, says the decisive factor in persuading his publisher, Canongate of Edinburgh, to take on the 500,000-word manuscript was that it was cleanly written on computer disc and coded for typesetting. Otherwise, editing and producing his tome, which is five times as long as the average novel, would have been prohibitively expensive and time-consuming.

Many authors write on a personal computer or word processor, though few have Palliser's detailed interest in computing and typesetting. But the book publishing industry has been remarkably slow to make use of IT. Only a few publishers have made a significant investment in editorial computers. Most are still receiving manuscripts on paper – either typed or printed out from the author's PC – editing and marking them up on paper, before handing over the processed manuscript to be keyed in again by a typesetter.

Some publishers are, however, beginning to respond more enthusiastically to writers who submit work on disc. They can see the attractions of a process in which a book is written, edited and typeset by computer.

The uncontested advantages of computerised publishing are that it saves time and avoids the risk of introducing errors at the typesetting stage. What is disputed between authors and publishers is whether it reduces costs.

"Authors save publishers quite a lot of money by supplying computer discs rather than written text," says Mark Le Fanu, general secretary of the Society of Authors in London. The society is encouraging writers to ask publishers for a share of the savings.

Most publishers deny that computerised input from authors has yet produced any overall savings. "It may speed up the production cycle, avoid extra keystroking errors and save time on proof-reading, but computer discs from authors are still so different from each other that the publisher may have to spend more money to ensure compatibility," says Carol Risher, new technology director for the Association of American Publishers (AAP) in Washington.

In an effort to achieve the standardisation of input that will eventually produce large savings, AAP is promoting an Electronic Manuscript Standard based on what is known as the Standard Generalised Mark-up Language.

SGML separates the intrinsic structure of a document (titles, paragraphs, captions and so on) from its content (text, figures) and from its format (the way it is presented, including such factors as the typeface). Mark-up tags are inserted in the text to show, for example, the start and finish of a paragraph.

The SGML codes make it possible to exchange text between any type of computer. And the same text can be presented as different products – as hardback and paperback books and as a CD-Rom computer disc – by changing the typeface and the lay-out.

Risher says authors and publishers have been slow to adopt SGML. They have been put off by its complexity – the official description is 155 pages long – and the lack of publishing software that makes it easy to insert the mark-up tags.

But SGML is beginning to take off, propelled by the US Department of Defence. From this year it is mandatory for defence contractors to use SGML for technical documentation. Other US Government departments, the European Commission and European Patent Office have also adopted it.

The defence department's move has created a huge potential market and software companies are responding with products that insert SGML tags automatically. Two pioneering text entry systems are Author/Editor from SoftQuad of Toronto, Canada (running on Apple Macintosh computers), and Write-it from Yard Software of Chippenham, Wiltshire (running on IBM-compatible PCs). Yard also sells Mark-It, which inserts SGML codes retrospectively into existing files.

"There will soon be a good choice of SGML authoring tools for the Mac and the IBM PC," says Peter Howgate, development director of Pindar Graphics, a Yorkshire typesetting company. "I would guess that in 12 months time there will be half a dozen for each platform."

Cat's Eye, by Canadian novelist Margaret Atwood, was the first best-seller produced using SGML. The Canadian and US publishers (McClelland & Stewart and Doubleday respectively) made different book designs from one set of Author/Editor files.

However, some publishers believe that SGML is still too complex and inflexible; they use proprietary typesetting systems such as Telos, created by Digital Publications of Edinburgh, which includes a text processor for use by authors.

Other publishers are developing simplified mark-up languages. For example Harper Collins, the international publishing group, is introducing the Electronic Text Management System developed by its subsidiary J. B. Lippincott, the Philadelphia-based medical publisher.

Harper Collins uses a Shaffstall 6000 media conversion machine to convert authors' discs to its own standard format. (It can handle almost any widely used word processor.) Copy editors then edit the text on personal computers with XyWrite word processing software.

A vital feature of the system is the "edit trace" facility, which enables the editor to review changes to the text. When editing is complete, the author receives a clean print-out which highlights all changes from the original manuscript and also includes editorial comments.

Editorial Text Management is now used by 30 in-house editors and 15 freelance copy editors at Lippincott. It is expected to save $300,000 in outside typesetting costs over the next year. The system is gradually being introduced elsewhere in the group, at Harper & Row in the US and on a trial basis at Thorsons and Grafton Books in the UK.

"Editors who have not worked on a computer before are generally afraid of computerised editing," says Larry Bryant, the group's electronic systems manager. But they are won over by features which make editing faster and easier.

Even so, there are people in publishing who have experience of computerised editing and still prefer to do the job on a paper print-out, says Stephen Brough, editorial director of The Economist Books in London. "They feel that editing on screen is for journalists and prefer to edit a book on paper."

Some editors find it easier to flick from one place to another in a paper manuscript – for example to check a possible discrepancy between two passages – than to scroll through the text on a computer screen. And they like the physical feel of editing on paper a book that will eventually be published on paper.

Compromise between computer and paper is possible, of course. The publisher can accept a disc from the author, do the editing on a print-out and go back to the screen to transfer the changes, so that the typesetter does not have to key in the whole manuscript again.

There are no reliable statistics to show how many authors work with PCs and could therefore supply their text on disc. But some are expected to emerge from a research project at Middlesex Polytechnic, sponsored by the British Library, on the way new technology is affecting the relationship between authors and publishers.

Jane Dorner, senior research officer, is analysing 1,300 detailed author questionnaires and hopes soon to publish some conclusions. One aim is to produce guidelines which can be incorporated in authors' contracts, specifying for example who should be responsible for typesetting accuracy if the author agrees to add mark-up codes to his or her discs.

Scientific and technical writers tend to use PCs much more than general authors, says David Palmer, production director for both Grafton (general) and Thorsons (technical). More than half of Lippincott's medical authors have PCs.

A pilot study for the British Library project showed that authors use a wide variety of word processing software, with Microsoft Word, WordPerfect, Wordstar and Locoscript the most popular.

Some programs are more useful to publishers than others. "Avoid word processors which lard the text with idiosyncratic superstructures," advises Hunter Steele, an Edinburgh novelist and publishing technology consultant. He prefers packages such as XyWrite and PCWrite, which have few special features and create a straightforward ASCII (text) file.

But any word processor can cause trouble for the publisher if the author does not use it properly. "A publisher often refuses to take an author's discs because it would take too much time and money to unscramble an inconsistently keyed text," says Cairns Craig, an English lecturer at Edinburgh University and director of Digital Publications. One infuriating inconsistency is the amount of space put in at the start of paragraphs.

At the other extreme is Charles Palliser, who spent three solid months checking the consistency of his Quincunx text and ended up with just five tiny spelling mistakes in half a million words.

"I'M AFRAID A COMPUTER VIRUS HAS TAKEN ALL THE GRATUITOUS SEX OUT OF YOUR NOVEL, MR SHRIMSLEY."


Trevor Humphries

Steve Jobs: in sober dress for his Palladium performance

The Next act in the Black and White Computer Show

The Steve Jobs show opened at the London Palladium yesterday. The best known performer in the PC business was giving his Next computer its first public display in Europe, 18 months after its world premiere at San Francisco Opera House.

The London show was only half as long as the three-hour San Francisco extravaganza, but many of the acts that had so impressed the Californian critics – for example a three-dimensional display of a gas molecule reacting to changes in temperature and pressure – were repeated for the invited Palladium audience of 1,000. And to give the finale a local touch, Jobs invited Rodney Friend, leader of the BBC Symphony Orchestra, to play a Bach duet with the computer; the machine synthesised the part of a rather tinny harpsichord to accompany Friend on the violin.

The stage set was minimalist: just a spotlit vase of white tulips and a black table bearing the all-black Next computer. (Its design seemed mildly avant-garde back at the 1988 launch, but now that the consumer electronics market is flooded with all-black Japanese hi-fi systems, the look is a little passé.)

As Jobs moves into his mid-30s, he is spending less of his working life in the blue jeans that were a signature of his hell-raising years at Apple. He wore a dark grey suit, white shirt and sober tie both for his Palladium performance and for a private interview in his hotel suite the day before.

The monochrome theme runs more than skin deep. The computer itself can produce only black and white images – admittedly their clarity and resolution are superb but many computer buyers thinking of spending £6,495, the starting price of the Next system, want colour. Jobs promises that a full-colour version will be available before the end of this year.

He also concedes that a shortage of applications software written for Next is putting off buyers. "There's no spreadsheet shipping yet – that's our biggest hole."

But he says the software gap will soon be filled. "Every major third party software developer in the US except Microsoft is writing for our computer." The first spreadsheet will be launched "within a few weeks" and by the end of the year Next will have a wide range of "compelling applications which you just can't do on other platforms."

Next was originally launched in October 1988 as an educational and research computer for universities, but Jobs re-oriented it last April as a general commercial workstation and deliveries to large corporate customers in the US started in October.

According to computer industry gossip, Next sales have been disappointing so far – and Jobs declines politely to divulge any sales figures. "We're a private company and one of the advantages of being private is that we don't have to disclose those figures."

Jobs says that most customers are buying Next computers in groups of 10 to 50 "and we have several commercial deals in the 100 to 500 range, but none yet for more than 1,000 units. When we have a large deal we wrestle with the question: should we announce it to the world – and our competitors – or keep it quiet? Usually we keep it quiet."

Next has chosen Businessland, the international computer distribution company, to lead its UK sales drive. Businessland, based in California, has been in charge of Next's US sales since May 1989. Derek Bytheway, the company's UK managing director, says "our target market is very much companies in the Times 1,000."

If the enthusiastic audience response to the Black and White Computer Show at the Palladium is any guide, Businessland's salesmen are going to be busy this year. And busier still when the colour version reaches the UK.

Clive Cookson

TRANSPORT LINKS WITH THE CONTINENT

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FINANCIAL TIMES

FT LAW REPORTS

Overtime premium does not count for redundancy pay

BRITISH COAL CORPORATION v CHEESBROUGH
House of Lords (Lord Bridge of Harwich, Lord Brandon of Oakbrook, Lord Griffiths, Lord Oliver of Aylmerton and Lord Lowry): February 15 1990

THE AVERAGE hourly rate of remuneration for the purpose of calculating redundancy pay, is the actual remuneration earned in the 12 weeks preceding redundancy less any overtime premium, divided by the total number of hours worked.

The House of Lords so held (Lord Brandon and Lord Griffiths dissenting) when dismissing an appeal by Mr Alan Cheesbrough from a Court of Appeal decision as to the proper method of calculating redundancy pay due to him from the British Coal Corporation (formerly the National Coal Board).

Paragraph 3(3) of Schedule 14 to the Employment Protection (Consolidation) Act 1978 provides that a week's pay for the purpose of calculating redundancy pay "shall be the amount of remuneration for the number of normal working hours in a week calculated at the average hourly rate of remuneration . . . in respect of . . . 12 weeks."

Paragraph 5(2): "Where in arriving at the said hourly rate . . . account has to be taken of remuneration payable for, or apportionable to, work done in hours other than normal working hours, and the amount of that remuneration was greater than it would have been if the work had been done in normal working hours, account shall be taken of that remuneration as if (a) the work had been done in normal working hours; and (b) the amount of that remuneration had been reduced accordingly."

LORD BRIDGE said that Mr Cheesbrough was employed by the National Coal Board from 1965 until he became redundant on December 14 1985.

During the 12 weeks immediately preceding that date, by reference to which his redundancy payment had to be calculated, he was employed as a surface worker at the Allerton Bywater Colliery in Yorkshire.

His normal working week comprised five eight-hour shifts, amounting to 40 normal working hours. In addition he regularly worked about 20 hours voluntary overtime.

For normal working hours he was paid a basic hourly rate. For overtime hours he was paid that rate plus 50 per cent overtime premium.

He was paid a small additional sum for unsocial hours. He regularly worked unsocial hours in his five shifts, and occasionally in overtime. Under an NCB and trade union agreement, as a surface worker he was entitled to bonus in respect of shifts worked in normal working hours, but not in respect of overtime.

British Coal proposed to make a redundancy payment to Mr Cheesbrough calculated on the basis that in order to arrive at his "average hourly rate of remuneration" for the purposes of paragraphs 3 and 5 of Schedule 14 to the Employment Protection (Consolidation) Act 1978, the only adjustment to be made to the figure of his total remuneration divided by total hours worked in the 12 weeks was the deduction from actual remuneration of the 50 per cent overtime premium.

That resulted in a week's pay of £129.04.

The effect of that method of calculation as applied to a person in Mr Cheesbrough's position, who could earn no additional bonus in overtime, was that the greater the number of hours overtime he had worked, the smaller the amount of a week's pay would be.

Mr Cheesbrough challenged British Coal's construction of Schedule 14 and its method of calculating his redundancy pay.

An industrial tribunal found in Mr Cheesbrough's favour and determined his week's pay at £135.48. The Employment Appeal Tribunal allowed British Coal's appeal and substituted £129.04.

On the present appeal it was rightly accepted that in the fraction which determined the average hourly rate of remuneration under paragraph 3(3) the denominator was the total number of hours worked in the relevant period of 12 weeks, and the numerator was the total actual remuneration for those hours adjusted only as required by paragraph 5(2).

British Coal submitted that the adjustment required by paragraph 5(2) was deduction of overtime premium from total actual remuneration.

Mr Cheesbrough submitted that on the true construction of paragraph 5(2) the calculation was: first, calculate the actual average hourly rate for work done in normal working hours and call it (a); next, calculate the actual average hourly rate for work done in overtime hours and call it (b). If (b) exceeded (a), deduct the difference from the total actual remuneration as the numerator in the fraction to be calculated under paragraph 3(3). If (b) did not exceed (a), make no deduction.

On the language of paragraph 5(2) the assumption required by the hypothesis "as if [the work done in overtime hours] had been done in normal working hours" and that "remuneration had been reduced accordingly," dictated at least the fiction that the amount of remuneration should not include the overtime premium.

The crucial question was whether the statutory hypothesis required a further and countervailing fictional assumption that overtime work should be treated as having all other characteristics of the work done by the employee in normal working hours so far as they affected his remuneration.

There was nothing in the language of paragraph 5(2) which required that further fictional assumption to be made.

On the true construction of paragraph 5(2) the calculation of the average hourly rate of remuneration was in all cases to be made by deducting from actual remuneration any element of overtime premium.

If there were any doubt about that construction, it would be dispelled by consideration of the underlying purpose of the provision in the statutory scheme.

What was now paragraph 5(2) was first introduced by section 39 of the Redundancy Payments Act 1965 as an amendment of Schedule 2 to the Contracts of Employment Act 1963. Its evident purpose was to prevent inflation of redundancy payments to employees who worked overtime premium in the concluding weeks of their employment.

The appeal should be dismissed.

Lord Oliver and Lord Lowry gave concurring judgments.

LORD GRIFFITHS in a dissenting judgment, said that Mr Cheesbrough's hourly remuneration in overtime did not entitle him to any bonus payment. His work during normal working hours however did attract bonus, and that bonus boosted his hourly rate of remuneration. Therefore the bonus rate must be taken into the equation to calculate his hourly rate in normal hours.

It was to that figure that the hourly rate for overtime must be reduced. That calculation resulted in his having the advantage of bonus included in his average hourly remuneration in exactly the same way as the man who worked the normal week without overtime.

The Court of Appeal was apparently impressed by the simplicity of British Coal's approach, which was merely to strip out the hourly overtime premium, which it thought would be a certain and easy formula for industry to apply.

His Lordship was not prepared to adopt a construction which, while it might save the employer from some elementary mathematics, would result in obvious injustice to the employee. He would have allowed the appeal.

Lord Brandon agreed with Lord Griffiths.

For British Coal: Peter Goldsmith QC and Andrew Smith (solicitor, British Coal Corporation).
For Mr Cheesbrough: John Hendy QC and Jeremy McMullen (Seifert Sedley Williams).

Rachel Davies
Barrister

ARTS

Ariane et Barbe-Bleue

GRAND THEATRE, GENEVA

In so far as operatic ideals can be achieved, this was it: music of austere splendour, existing in its own mysterious time-world, a tale rich in human symbolism and a production that allowed the work to speak for itself. The Grand Theatre in Geneva has just been performing *Ariane et Barbe-Bleue* as if it were the greatest forgotten masterpiece in operatic literature.

After a long absence from Europe's lyric theatres, Dukas' only opera has been staged twice in the same season, in Amsterdam (reviewed by David Murray), and now Geneva. All the evidence suggests we ought to have the chance to hear *Ariane et Barbe-Bleue* much more often, because it is a work that casts as many impressions as it has layers of sound. In Geneva, the shifting moods and colours of the score were explored with exemplary skill by Richard Armstrong who secured pure, transparent playing from the Suisse Romande orchestra.

The staging was by Yannis Kokkos, the Greek designer whose black, symbol-laden sets have enhanced previous Geneva productions of *Elektra* and *Don Carlos*. Kokkos interprets *Ariane* as a mixture of modern theatre and medieval myth: Bluebeard's brooding castle interior is dominated on one side by a giant stone guardian angel, on the other by a spiral staircase disappearing into the gloom. The six doors are vaults beneath the floor, which reveal their treasures by shooting fragments of reflected light up into the darkness. Kokkos is a genius with light, using it sparingly to create atmosphere.

Although the production does not manage to conceal the long-windedness of the two outer acts, it has the kind of musico-dramatic unity which distinguishes the work of the most successful designers-turned-producers. Like his costumes, Kokkos' stage direction is graceful and unfussy. The five wives were imaginatively choreographed, an attractive, well-contrasted group. His treatment of the Bluebeard scenes was also effective: at the end of Act 1, the crowd bursts through the door just as Bluebeard is threatening to drag Ariane by the neck with a scarf. By the third act, Bluebeard is a broken figure tied to a crucifix, a victim of pitiless mob revenge.

Harry Peeters was a taciturn, tragic Bluebeard; Diane Curry's portrayal of the Nurse was less effective. As Ariane, the American soprano Ellen Shade cut a ripe, womanly figure, exuding a quiet confidence that radiated the whole performance.

Andrew Clark

Bohème and Pasquale

CONGRESS THEATRE, EASTBOURNE

Travelling Opera, a touring company run by the baritone Peter Knapp, is making a spring tour of ten centres. *La Bohème* and *Don Pasquale* have the lion's share of the current repertory. Eastbourne had one performance of each. *Bohème* drew a good house. Meagre attendance for *Pasquale* suggested that admiration for Donizetti's mastery and (one would have thought) irresistible comic opera doesn't extend, even in these days of opera everywhere, much beyond big centres.

Opera, in Mr. Knapp own words "accessible to absolutely everyone," is what the company aims at. It is kept small — vestigial but effective chorus, chamber orchestra with (so it sounds) solo strings and single woodwind. The playing is good and gutsy but the disparity of numbers can't help doing peculiar things to the texture. Surprisingly this was more apparent in Donizetti than in Puccini - it was in *Pasquale* that one missed the string cushion and that the by no means primitive wind writing sometimes distracted the ear from the vocal lines. The names of the players should be given in the programme. Musical preparation had clearly been thorough for all concerned. Words on the whole were commendably clear. The conductor for *Bohème* is Ian Watson, for *Pasquale* Richard Balcombe.

The latter is given in a new English version by Peter Knapp updated to the present day. Pasquale (or Pascale, as the programme twice calls him) is an English resident in Tuscany, a health and fitness freak, trained by and pandered to by his friend "Manrico" Malatesta. Clue, alas, for fitness routines, including a ballet during the overture and, at the end of the opera, a winsome romp to an interpolated plugging of the tenor's serenade.

Knapp uses a mixture of spoken dialogue and recitative. Nephew Ernesto sings "Bella siccome un angelo" in Italian while surtitle placards are coyly displayed on stage. Since Pasquale (Alan Watt) is in his late forties — so he says — and evidently fit enough to kick Ernesto (David Fieldsend) out of the house whenever he feels like it, there is no need to feel sorry for him when his pseudo-bride Norina (Elizabeth Clarke) slaps his face. At important moments like this the updating works right against the sentiment of the music. Buffo style does not come easily even to practised English singers – the "Cheti, cheti" duet for Malatesta (David Oke) and Pasquale for instance depends as much on body language as on vocal and verbal style. Our native eyes and limbs don't easily do the right things.

Bohème, set in 1930s Paris, bears the marks of enforced economy, fated to look dreary in the deadening spaces of the Congress Theatre. Would a little flair and taste have cost more? Students in the Latin Quarter in those far-off days may have been shabby but they didn't much resemble these depressed-looking British suburbanites. Rodolfo (James Anderson) and Marcello (Peter Knapp) were presented as middle-aged and balding. Their more than respectable singing couldn't rescue the illusion. Mimi (Anne Williams-King) and Musetta (Fiona O'Neill) went their different sartorial ways. A course of René Clair films is recommended. In the central acts, for all the players' goodwill, one missed the full orchestral colours. Not in every way a happy choice, though it may help to persuade "everyone" that opera is not "the sacred pleasure of a privileged few." I note with mixed admiration and regret that there is no mention of subsidy or sponsorship.

Ronald Crichton

The Empire

WATERMANS ARTS CENTRE

A huddle of bemused people stood in earnest conversation around the reviews board at Brentford's Waterman's Arts Centre. So that was what it was all about, said one of them, evidently not wholly convinced. It is the sort of reaction one has come to expect to the work of Steve Shill, a former member of the ground-breaking Impact Theatre Co-operative, who has struck out on his own into an ever more rarefied theatrical realm, one of the prime rules of which seems to be to communicate as obliquely as possible.

In his award-winning *Ode to St Cecilia* last year, a redundant orchestra became an analogue to the dismemberment of the arts in contemporary Britain; in *The Empire*, he shifts his focus from the political to the metaphysical to present the struggle for survival of a pregnant woman after a car crash in which her husband has been killed. Only, being Shill, he declines to present this as a straight forward dramatic narrative.

Instead, the hour-long piece is set in the staff room of a children's hospital, where Mrs Petherbridge waits impassively with a flint-faced doctor and receptionist as billowing curtains and birdsong give to the distant sounds of aerial bombardment. It is a dream world with nightmares around every corner, which is lit into the constant relief of fantasy. The three women are neat in the tweeds and corsets of the 1950s; there is a just a hint of sadism about the briskly dismissive doctor, while the receptionist pursues her own sad drama of unwanted pregnancy.

Behind this facade a quite different battle is raging, which is presented as shards of narrative recounted with the breathy tones of an adventure story by performers isolated in pools of spotlight. "This is Mrs Petherbridge's desperate hunt for her unborn child in the metaphysical no man's land called The Empire. The third dimension, not represented on stage though it has an unseen presence throughout, is Mrs P's shattered body lying in hospital fighting to recover.

Whereas in the work of a lesser director this might seem simply obfuscating, Shill has the power to make his audience work for their comprehension with the curious result that one tends to appreciate the memory more than the experience of sitting there and watching. The atmosphere of his work is, as always, cool and composed, with an exquisite eclectic soundtrack from Graeme Miller and tantalisingly understated performances from Alison Andrews, Johanna Harrison and Adele Saleem. But the final strength of this master imagist is his ability to create and sustain resonances which are as rich and as strange as his audience wants them to be.

Claire Armitstead

TELEVISION

Different ways of going over the top

The release of any political prisoner is a joyous occasion. The release after 27 years of a political prisoner who is also the leader of an unenfranchised people is a momentous occasion which few decent onlookers would forebear to celebrate. On the other hand it is no part of a news programme's function to celebrate anything. British news broadcasters have an international reputation which can be traced straight back to Second World War when the BBC not only behaved with impeccable even-handedness, appearing as near as was socially acceptable to be neutral, but also maintained a commanding sense of proportion.

During last week's coverage of Nelson Mandela's release, neutrality and sense of proportion went by the board in both BBC and ITV coverage, a fact recognised by everybody I have spoken to except the broadcasters. Why are they the only ones who do not realise that they went over the top? The reasons seem to be, first, that modern television news-gathering facilities are, most of the time, under-used, and when something out of the ordinary does happen, instead of moving up a gear the broadcasters go mad and crash right through the gearbox. Secondly, while the public are concentrating on the event, and comparing it with other events such as the collapse of communism in eastern Europe, the broadcasters are watching each other and comparing their own Mandela coverage with the opposition's. What they see is another lot of broadcasters going over the top, and so they feel justified in their own excesses.

There is, incidentally, one thing which a timely television programme could now clear up. Is it true that this man whose release has resulted in joy amounting almost to hysteria on television is a communist whose aim is to create in South Africa the sort of political system whose overthrow in eastern Europe recently resulted in joy amounting almost to hysteria on television? That is right, is it? Or have I missed something?

★

In the end we shall just have to accept that there is nobody left in television who understands the meaning of the phrase "to break the mould" (as in "When God made Lew Grade he broke the mould" meaning that Grade is unique). The expression is now habitually confused with "breaking new ground," so that people say "This rock group's breaking the mould," and with the words transposed, the phrase is used to mean little more than "new" as in "This is a mould-breaking pension scheme." That is probably a lost cause.

Ben Elton and Dave Allen: all credit to the BBC for ignoring the killjoys

But have we really reached the point where it is acceptable and unremarkable that a reporter on a new travel show — *Travelog* on Tuesdays on Channel 4 — should not know the difference between less and fewer, or between masterful and masterly? A dreadful young show-off named Macpherson (who should not be blamed entirely for his antics, perhaps, since television producers now seem to regard teenage exhibitionism as a primary requisite in all new reporters) proved that he had not the faintest idea of the distinction in either case.

★

Once in a while during Sunday evening's "Screen Two" drama on BBC2, *He's Asking For Me*, the director Witold Starecki cut away to a tangle of thorny branches which looked like one of Arthur Rackham's fairy story illustrations. The trouble was that whereas Rackham was quite clear about the fears he wanted to convey, Starecki (and writer Boleslaw Sulik who worked from an original idea of Starecki's) seemed anything but sure.

Did the tangled branches represent the manifold wires of the phone system and were we supposed to be frightened of the anonymous phone caller? The heroine wasn't. Or did that tangle symbolise the many complexities of modern city life? We did see one or two threatening punks and tramps, but nothing to compare with the Pollakoff urban nightmare. So what was it all about? Your guess is as good as mine. It was another of those dramas in which the acting, camerawork, locations and so on were more impressive than the script.

★

When Duke Hussey, Michael Checkland and John Birt took over the BBC it was suggested in this column that anybody who thought they were lightly camouflaged Tory lapdogs might be in for a surprise. BBC attitudes now regarding Dave Allen and Ben Elton indicate that this suggestion may have been accurate. It is greatly to the credit of the BBC top brass that, faced with the brigade of Pharisaic killjoys who parade under the banner "I'm No Prude But" (demanding the banning of that which they will not switch off) they have stood firm on their decision to include Allen's and Elton's comedy in their output.

Given the embarrassing childishness we have had to put up with over the years from the likes of Bob Monkhouse and Benny Hill with their pee-po-belly-bum-drawers routines, a few marginally more adult belt-hours seem the least we might expect. To be honest, after Elton's showing on television previously, I had been ready to find his right-on self-righteousness somewhat tiresome, but in the event he was uproariously funny, and his targets — such as those indiciously smug "Baby On Board" notices in the backs of Kentish Town Volvos — were mostly well chosen.

Though his climactic routine, about a weary woman in the bathroom in the small hours, fighting to insert a slippery diaphragm, was not wholly original (there is a woman on the alternative comedy circuit who does a very similar number) it was superbly well developed and, towards the end, caused me to roll off the old green sofa onto the carpet. No critic can say more.

★

When an independent production company called Chatsworth first brought to Britain a French game show called *Chasse au Trésor* they received a good few raspberries from the critics. But the sight of Anneka Rice's backside moving rapidly while tightly encased in a jumpsuit seems to have had a hypnotic effect, and *Treasure Hunt* went on to become one of Channel 4's highest rated series. Perhaps Chatsworth reckon that whatever pointy-headed critics may say, something similar will happen with *The Crystal Maze*. I cannot believe it.

This new game show clearly owes something to "dungeons and dragons" but only creeps into the realms of lockups and lizards. Our "genial guide," who has a shaved head, black tights, Noddy boots, and a short black coat trimmed with mock leopard skin, leads the contestants around Shepperton Studios, urging them to choose between the Aztec, Industrial, Mediaeval and Futuristic zones, there to play a physical or mental game or one of mystery or skill. Our genial guide says things like "Follow me kiddoes" and the contestants dutifully chant "Good luck Nick! Go frit! Go frit."

It makes *Bullseye* look like an intellectual Everest.

★

BBC2's *Late Show* does excellent work; it is frequently better than *Line Up* used to be. However, on Monday it provided an example — merely the most recent that happens to come to mind — of a habit which is growing rapidly in all branches of television journalism and which should be suppressed forthwith. During an item about *The Three Graces* the camera panned and tilted to show different facets of the sculpture, and at the same time a lot of information about the work was printed across the screen in a ribbon caption.

Since the eye cannot simultaneously read and look at pictures you had to choose between the two. In these circumstances, with time involved as the fourth dimension (read too slowly and the pictures will have disappeared) television is inferior to the newspaper or magazine (read as long as you like: the pictures will still be there).

The answer, of course, is for television to do what it has always done in the past and deliver the information not in print but in voice-over, so that the viewer can use eye and ear simultaneously to ingest two lots of information. The habit of delivering facts via print on the screen may look awfully fashionable to trend-conscious directors, but it means a serious impoverishment of the medium.

Christopher Dunkley

Berlin Film Festival

The 40th Berlin Film Festival had a hard time stealing thunder from the real-life history happening around it. Journalists airlifting themselves out of Berlin at festival's end were more likely to carry away images of what they had seen outside the cinemas than inside them. Tourists and souvenir-vendors hacking away at the Wall; Hollywood stars stepping over the East Berlin border, as if planting a first foot on Mars; Sally Field grabbing a Wall-top photo opportunity near the Brandenburg Gate.

Truth is weirder than fiction, even when fiction has a good year, as in Berlin's 1990 movie line-up. Not for the first time, some of the best movies were outside the competition. None better than Alejandro Agresti's *Secret Wedding* from Argentina, which should have ousted Carlos Diegues's appalling Brazilian comedy about a Carmen Miranda wannabee, *Better Days Ahead*, as Latin America's Golden Bear contender.

Agresti's tale of a political prisoner returning to his village after 13 years as a *desaparecido* is a Byzantine tragicomedy worthy of Gabriel Garcia Marques. Greeted by a conspiracy of non-recognition, even from his faithfully pining girl-friend, he finds himself a human ghost in a town which has re-mapped history. Denounced by the priest as an impostor and by the town's officials as a KGB agent, he ends up heading dolefully back to oblivion. Shot with a sardonic flamboyance – soaring crane shots, vertical angles – the movie marries Wellesian visual style to a mournful wit exquisitely and definitively Spanish.

Back in the competition, the favourite among those trying to second-guess the jury was West Germany's *The Nasty Girl*. Director Michael Verhoeven's last movie to compete at Berlin, the anti-Vietnam satire *OK*, virtually closed the Festival. (The jury resigned after being pressured to ignore the film.) *The Nasty Girl* is a pyrotechnic satire on post-Nazi German guilt, in which an ex-schoolgirl (Lena Stolze) sets out to unearth her home town's history under the Third Reich. No-one - surprise, surprise - wants to co-operate. And Verhoeven, resisting any temptation to weigh the film down with self-righteousness, creates a funny, virulent lampoon. The "sets" are back-projections in black-and-white; the characters are precision-cut comic types; the dialogue is studded with barbs and ironies.

Come prize time, Verhoeven had to make do with a Silver Bear for best direction. The Golden Bear for best film was sliced down the middle – always a painful spectacle – and shared by America's *Music Box* and Czechoslovakia's 20-year-old *Lark on a Wire*.

This surprised just about everyone. The first film is a medium-gripping thriller by Costa-Gavras (of *Missing*), with Jessica Lange as a toothsome lawyer defending her Dad, suspected of being an ex-Nazi. The second is a lightweight anti-Communist satire – if such things are ever lightweight in Eastern Europe – which was banned for two decades for its tale of shipyard-working bourgeois prisoners cocking snooks at Marxist dogma. Both films are watchable; neither rewrites movie history.

China and East Germany took a consolation Silver Bear each for two "outsider against the system" movies: *Black Snow* from China, *Coming Out* from the GDR. Hollywood and Britain mopped up the acting prizes, with Jessica Tandy and Morgan Freeman honoured for *Driving Miss Daisy* and Iain Glen for *Silent Scream*. And if Oliver Stone felt hard-done-by with a zero-bear score for hotly tipped *Born on the Fourth of July*, he can look forward to Oscar night, just six weeks away.

Nigel Andrews

ARTS GUIDE February 16-22

THEATRE

London

Anything Goes (Prince Edward). Cole Porter's silly ocean-going 1930s musical has four or five marvellous songs and Elaine Paige failing to emulate Ethel Merman. Jerry Zak's desperately bright production comes from the Lincoln Center in New York. (734 8951, cc 836 3428).

Jeffrey Bernard is Unwell (Apollo). Brilliant performance by Peter O'Toole as an alcoholic journalist who embodies a Falstaffian, nay-saying life force while committing public suicide by vodka. Keith Waterhouse has stitched a fine play, the season's highlight, from Bernard's own writing, Ned Sherrin directs (437 2663).

A Little Night Music (Piccadilly). Fine revival by Ian Judge imported from Chichester, of Sondheim's 1973 schlagobers version of a Bergman film. A beautiful score, composed mostly in waltz time, is touchingly performed by Lila Kedrova, Dorothy Tutin (her best work in years), Peter McEnery and Susan Hampshire (867 1118).

M. Butterfly (Shaftesbury). Peter Egan has taken over from Anthony Hopkins as the tortured diplomatic hero in a Peter Shaffer-style "spectacle of ideas" dressed up in John Dexter's superb production as a metaphor of homosexual life. The transvestite tragedy proves less electrifying than in New York. (379 5399).

Aspects of Love (Prince of Wales). Andrew Lloyd Webber's latest is an intimate chamber operetta derived from David Garnett's 1955 novella. Musically interesting and well directed by Trevor Nunn, a cast of unknowns project the right sense of sybaritic insouciance. A probable, but unspectacular, hit (839 5972).

New York

Heidi Chronicles (Plymouth). Wendy Wasserstein's award-winning drama covering 20 years in the life of a successful American baby boomer goes from support for Eugene McCarthy's presidential aspirations to electoral ambitions in the 1980s, accompanied by the musical and emotional flavour of the period (239 6200).

Grand Hotel (Martin Beck). Tommy Tune, Broadway's present musical doctor, directs this remake of the Garbo film to at least shake the bones of this inert depiction of lives criss-crossing in an elegant, but somewhat random setting (246 0102).

Sweeney Todd (Circle in the Square). An intimate production of the Sondheim-Wheeler musical in contrast with the elaborate original a decade ago emphasises the descent into madness of Bob Gunton as the demon barber of Fleet Street (239 6200).

Lend Me a Tenor (Royale). A sprucing up in the set of a decaying town's big time opera ambitions makes a transatlantic hit of this farce, first produced in London, but now with a local cast led by Philip Bosco and Victor Garber (239 6200).

Jerome Robbins' Broadway (Imperial). Anyone attracted by the notion of three hours of film trailer previews will adore this compendium of Robbins' directed and choreographed plays of the past 40 years, including On the Town, West Side Story and Gypsy. The lustre of the credits is dimmed by the brevity of each piece, with a contemporary crew of Broadway aspirants who lack the multi-talents that inspired the heyday of the musical.

Cats (Winter Garden). Still a sell-out, Trevor Nunn's production of T.S. Eliot's children's poetry set to music is visually startling and choreographically feline (239 6262).

A Chorus Line (Shubert). The longest-running musical in the US has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as auditions rather than emotions (239 6200).

Les Misérables (Broadway). The magnificent spectacle of Victor Hugo's majestic sweep of history and pathos brings to Broadway lessons in pageantry and drama (239 6200).

M. Butterfly (Eugene O'Neill). The surprise Tony winner for 1988 is a somewhat pretentious and obvious meditation on the true story of the French diplomat whose long-time mistress was a male Chinese spy (246 0220).

Phantom of the Opera (Majestic). Stuffed with Maria Bjornson's gilded sets, Phantom rocks with Andrew Lloyd Webber's haunting melodies in this mega-transfer from London (239 6200).

Chicago

Steel Magnolias (Royal George). Ann Francis and Marcia Rodd play the leads in this view of southern life from under the dryers in a busy hairdressing establishment (988 9000).

I'm Not Rappaport (Briar St). Shelley Berman, one-time stand-up comic, now plays Nat, Herb Gardner's memorable Central Park character who gags his way through the 1986 Tony Award winner (348 4000).

The Good Times are Killing Me (Body Politic). This City Lit production of Lynda Barry's first play captures an American childhood with poignant zaniness (871 3000).

Tokyo

Kabuki. Kabuki-za. Performances at 11am and 4.30pm. Of the three pieces in the matinee, the most famous is *Funa Benkei (Benkei in the Boat)*, which is set on a kabuki version of a noh stage. The evening programme features two short dance pieces and a full-length drama, *Sannin Kichisa (Three Men Called Kichisa)*, an amusing and action-packed genre piece about three bandits who all have the same name. One of them is a young pickpocket who disguises himself as a woman – a virtuoso performance by the versatile Kikugoro. Earphone guide in English (541 3131).

Bunraku. National Theatre. Performances at 11.30am, 3pm, 6pm. (265 7411). Each of the three programmes features a well-known love suicide drama from the 18th century. The first is by Chikamatsu Monzaemon, sometimes called the Shakespeare of Japan; the second is the story of the love between the daughter of an oil shop owner and one of the young clerks; in the third, the gloomy story is relieved by some virtuoso puppetry including a shamisen lesson and a dance for two monkeys. Earphone guide in English.

Obituary

Michael Powell

Michael Powell, who died yesterday aged 84, was British cinema's joker in the pack. Gloriously talented and totally unplaceable, he belonged to no suit, yet could play in any. He was a writer-director-producer: for 15 years in partnership with Emeric Pressburger, with whom he formed The Archers production company in 1942. And he made every kind of movie, from the grittily patriotic *One of Our Aircraft is Missing* to the floridly romantic *The Red Shoes* to the murderously subversive *Peeping Tom*.

In a national cinema whose strongest suit has been quasi-documentary realism, Michael Powell waved a flag for the flamboyant and overreaching. He teased his stories of Britain into epic, heraldic fables. *The Life and Death of Colonel Blimp*, made in 1943, was a serio-comic picture of Britain at war that Churchill tried and failed to ban. *A Matter of Life and Death* (1945) was a wartime ode on intimations of immortality, hopping between heaven and earth. *Black Narcissus* (1947) transplanted the British brand of throttled sexuality to a Himalayan nunnery. And even a chamber movie, like *The Small Back Room* (1948) had moments of breakaway surrealism: notably an alcohol-induced hallucination scene that made *The Lost Weekend* seem like a tipsy moment at a vicarage sherry party.

Powell's heyday was in the 1940s and 1950s. In those decades, his and Pressburger's imagination swept across Britain, spinning mischievous folk-tales from Kent (*A Canterbury Tale*) to the Hebrides (*I Know Where I'm Going*). After the two men parted company in 1956, Powell made a handful of curios and one rogue masterwork, *Peeping Tom*. Now hailed as a classic, it created uproar back in 1960: one contemporary critic calling for it to be flushed down the nearest sewer.

Today, the film seems all of a piece with movies like *The Red Shoes*, *The Tales of Hoffman* and even Powell's magical apprentice work, *The Thief of Baghdad*.

Powell's cinema echoes Gerard Manley Hopkins's declaration that "the mind has mountains." His films refuse to acknowledge the laws of gravity; they have a reach and visual splendour that still startle today; and they make up a body of work that has had an avowed influence on major film-makers today, from Scorsese to Coppola to Spielberg.

Nigel Andrews

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Thatcher's world

MRS MARGARET Thatcher's command over British foreign policy is no greater than that enjoyed by some other long-serving peacetime Prime Ministers. To take but one outstanding example, foreign affairs were certainly the province of No 10 Downing Street when Mr Neville Chamberlain held office. As in that instance, Mrs Thatcher has become increasingly dependent upon her personal instincts. This has had a powerful effect, by no means all of it negative.

Her pursuit of a military victory in the campaign to recapture the Falklands during her first term demonstrated her iron determination. Her stubborn tactics in the negotiations over the European Community budget served British interests well. The warm personal relationships she established with President Ronald Reagan and Mr Mikhail Gorbachev enabled London to act as a conduit between East and West. Her dislike of economic sanctions against South Africa has given her a disproportionate degree of influence in white Pretoria. She has been able to adopt a world role that exceeds the reasonable aspirations of a medium-sized power.

Success record

This record of success is now becoming difficult to maintain. The world has moved on, while Mrs Thatcher has not. Mr Reagan has left office and President Bush regards Germany rather than Britain as the key west European country. Mr Gorbachev is deeply preoccupied with the internal affairs of the Soviet Union, in which Britain has a small part, if any, to play. The EC has become strengthened, and those who seek greater cohesion leading to a quasi-federal outcome seem to be in the ascendancy. Washington sees Britain's best role as a willing partner within the EC, not the other end of a bridge across the Atlantic. Most significantly of all, the process leading to the unification of Germany is gathering increasing momentum, thus calling into question the postwar structures designed to maintain security on the European continent.

The Prime Minister has recognised most of this, but in so doing she has allowed her personal doubts and fears to overrule the imperatives of contemporary diplomacy. Thus a lone stance has been adopted over South African sanctions. It is arguable that the actions of President de Klerk deserve some kind of positive response; what is not sensible is for Britain unilaterally to decide to lift some sanctions. By doing that it once more indicates its unwillingness to move collectively with the EC, and further weakens its own voice in world affairs.

Technically right

Again, Mrs Thatcher is technically right to recall that the four Second World War allies have formal treaty responsibilities for both Berlin and a German peace treaty, and undoubtedly correct to stress the importance of a guarantee of Poland's Western frontier with Germany. She is not alone in underlining the importance of the 1975 Helsinki accords, as yesterday's decisions at the EC foreign ministers' meeting in Dublin shows. Others besides Mrs Thatcher are anxious to arrange a sensible disposition of troops in a united Germany.

Where she has gone wrong is in sending such inevitably negative-sounding signals without taking sufficient account of the sensibilities of Germans, east and west, who see the prospect of unification as an occasion for national rejoicing. Other members of the EC have been able to do this because, unlike Britain, they are by and large united in welcoming the broadening and deepening of the community both for its own sake and as a means of maintaining stability in western Europe and gradually extending it, through Germany, eastwards. The Foreign Secretary, Mr Douglas Hurd, was able to attune himself to this kind of thinking in Dublin yesterday in a manner that would have been impossible for the Prime Minister. But there is a difference here of substance rather than tone; for Downing Street has given no indication that its antipathy to the EC's long-term aspirations has in any way abated. It is this attitude which lies at the heart of the problem.

A sermon from Mr Greenspan

THE ART of central banking, as a Bundesbank director put it last year, is to proclaim a lucid set of policies which the market will regard as anti-inflationary, and then to explain authoritatively why, at any given moment, it is impossible to follow those policies exactly. In other words, the more a central banker can establish his credibility, the more flexible he can be in practice.

Mr Alan Greenspan, chairman of the US Federal Reserve, has to describe his policies twice a year to Congress, and he has consistently used language which suggests that his task is simpler than it really is. The result up to now has been gratifying: he has maintained the anti-inflationary credentials established by Mr Paul Volcker, while disarming the expansionists on Capital Hill with his lucidity. This year, however, he may find, like King Canute, that his courtiers now credit him with powers he does not possess.

He made some mention of the tides from abroad which are carrying up American input prices and interest rates, but in terms which gave these influences about the same weight as the recent cold-weather increases in food and energy prices – a temporary inconvenience. He stressed that the focus of Fed policy is on "the stabilisation of the domestic economy" rather than on exchange rates or the external influences on the home economy. It is not clear how far this distinction has any meaning in the global economy.

Tide turns

There is a growing belief in the markets that we are now witnessing a major turn in the economic tide which may greatly limit the Fed's influence over costs or interest rates. In the early 1980s the main engine of growth in the world economy was a huge demand stimulus in the US. The Fed under Mr Volcker contained the potential inflationary results at home by raising interest rates aggressively: the dollar rose steeply, and as a result much of the demand stimulus, and nearly all the inflation impact, were felt in other countries. Now, after the miracles which closed the 1980s, the new decade is starting with a major stimulus in prospect from Europe, monetary containing action from the Bundesbank, and a worldwide stimulus to prices and output.

In these circumstances the Fed's far from demanding growth expectations may be quite easily met; but its seemingly modest hope to reduce inflation over five years to a level where it would not figure in business planning may be unrealistic. Domestic growth of 1½-2 per cent would keep the pressure on labour and capacity much where it has been in the last year, since the 1989 statistics were flattered by the recovery from the 1988 drought. But while cost pressures from domestic demand would be contained at this growth rate, the external pressures, already seen in rising prices for oil and other primary inputs, are likely to grow. So is the domestic labour market pressure deplored by Mr Greenspan.

Price pressure

US monetary policy is not likely to have much short-term influence on either of these sources of price pressure. In these circumstances the chairman might have preferred to play down his hopes for stability in any given time-frame. He was given little alternative, though, because the chairman of the House domestic monetary policy sub-committee, Rep Stephen Neal, has launched a bill to bind the Fed to the pursuit of a target of zero inflation within five years. This is designed to support Mr Greenspan against his critics in the Administration, and Mr Greenspan can hardly reject it, whatever his private misgivings.

Mr Greenspan's reassuring remarks about junk bonds and leveraged restructuring might also be dismissed as public relations, aimed simply to build confidence. Yet the Chairman is a strong believer in financial deregulation, and is on the defensive: the populists in Congress now have many allies in calling for tighter disciplines on the markets. As with his remarks on inflation, his confident statements may provide reassurance at the moment; but they offer another hostage to fortune.

It was nearing the end of a long day and Mark was driving very fast, too fast, down a wiggly country road in Scotland. As he drove round the bend at 70 miles an hour, he saw in front of him a big truck lumbering along the road ahead. He applied the brakes; the brand new Peugeot GTI skidded along the road, out of control, before connecting with the truck and cartwheeling into the neighbouring bog.

Mark survived without a scratch: but the car did not, at least not in a recognisable form. The chassis was twisted, the bumper buckled, the axle-tree snapped, the petrol tank ruptured. When Mark came to his senses he was worried: it was not his car. He had borrowed it from a prosperous merchant banking friend. He spent a sleepless night wondering what his friend would say when he told him about the car.

The next day Mark phoned his friend. "James, I have some bad news for you," he mumbled apologetically, "I have written off the car." There was a dreadful pause, which Mark filled in his own mind with visions of slaving away for decades to replace the car, like the lady in the Maupassant short story who spent 20 years paying for a friend's lost diamond necklace. Then the reply: "Don't worry, it's a company car."

Mark was overwhelmed. It didn't matter that he'd driven round the bend at 70 miles an hour, collided with a lorry, cartwheeled into the bog and written off an expensive car. It didn't matter because it was a company car. Someone else would drag it out of the bog, mend it, replace it, pay for it, and the friendship between James and Mark would continue as if a bright red Peugeot once worth £10,000 or more were not now a twisted lump of metal.

The incident said a lot about the relative status of the two individuals: Mark continued his holiday carless, and conscious of his impoverishment and enormous debt of gratitude; James, well-paid and magnanimous, continued to negotiate his multi-million pound transaction as if nothing had happened. Elsewhere at the bank, the personnel director's assistant began the irksome task of getting the car back from the bog, thus illustrating another reason why a company car is such an attractive perk: there is no inconvenience for the employee.

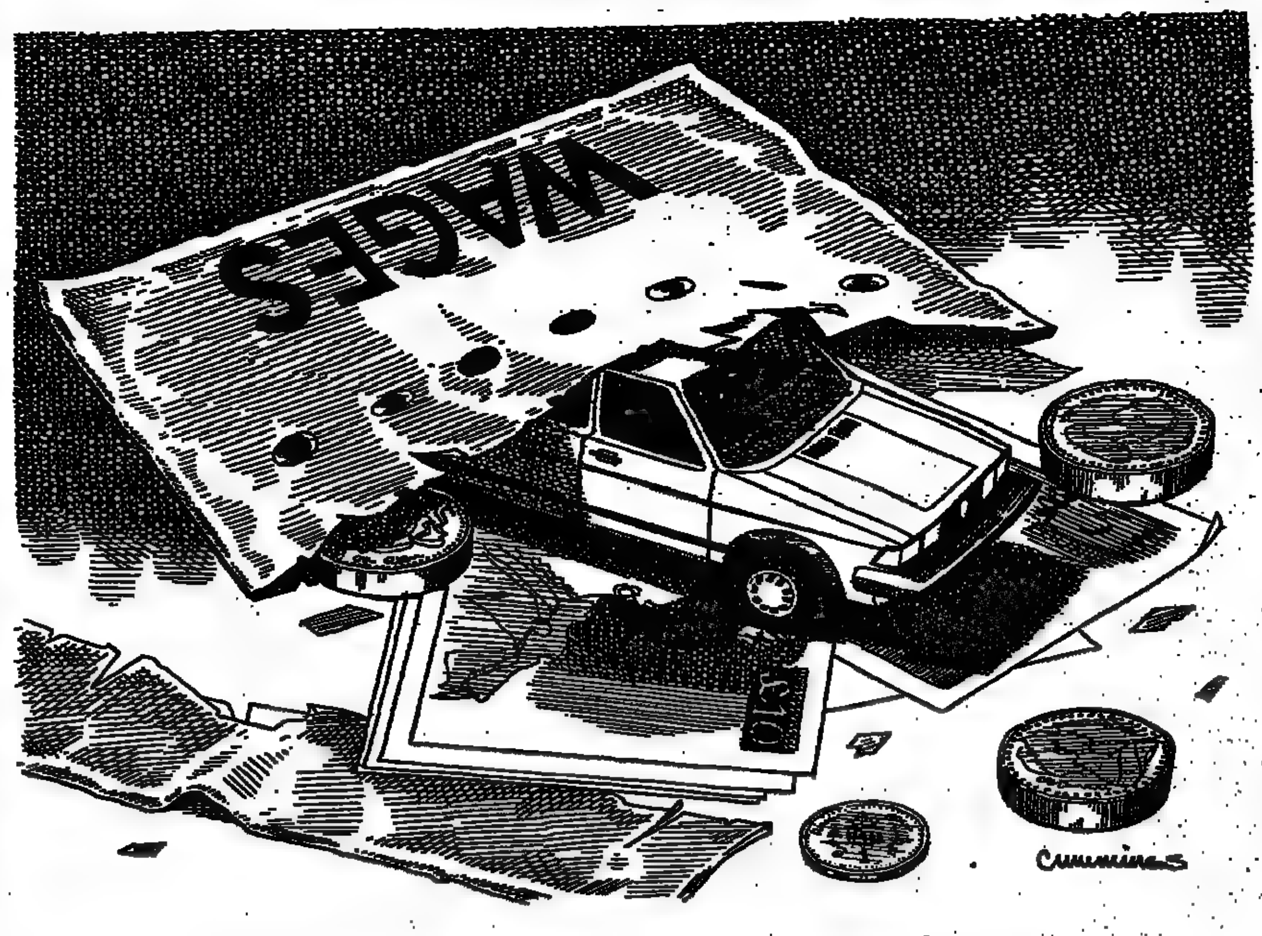
Those who do not have company cars feel resentment for those who do. That resentment is compounded by a feeling that the taxpayer in general is subsidising the company car driver. Although Nigel Lawson, the former Chancellor, received a country house and a chauffeur on the nation, he felt the same way. In his 1988 Budget he declared that the average employee was taxed on only a quarter of the true value of the perk.

The required tax adjustment was too dramatic to be achieved in one year, he said, and tax rates were raised by 50 per cent that year, and by a further 30 per cent last year.

The rise in the 1988 Budget prompted howls of anguish from the motor industry ("savage and unfair," lamented the Society of Motor Manufacturers & Traders); last year's relatively modest hike was greeted with a sigh of relief. The question which is now troubling the manufacturers, the fleet managers and the 1.5m-plus drivers is just how much higher the rates will go when Mr John Major, the present Chancellor, delivers his first Budget speech next month.

Whether the tax rates should be raised for the third year in a row is open to much debate. Not surprisingly, the motor industry believes that the level of taxation now adequately reflects the economic value of the perk for most employees. By contrast, the Institute of Fiscal Studies, the influential London think-tank, argues that taxpayers are subsidising company car drivers to the extent of £1.1bn, simply because neither employer nor employee is obliged to pay national insurance on the value of the perk.

As the UK Budget approaches, David Waller looks at the tax advantages of driving a company car



The attraction of a free ride

This phenomenon of the company car is not confined to the UK: what data there are suggests that company cars are a good deal more prevalent elsewhere than is commonly supposed. For example, according to figures for 1987 provided by Lease Plan, nearly 15.1 per cent, or 4.2m of West Germany's total car population of 28m, was registered with companies, compared to 13.2 per cent in the UK, 2.5 per cent in Italy and 8 per cent in the Netherlands.

But the proportion of new cars sold to businesses in the UK is much higher than elsewhere. According an international motor manufacturer, which declined to be named because it said the figures were very approximate, only 14.2 per cent of new cars in West Germany go to businesses, against 15 per cent in France, 24 per cent in the US, and somewhere between 50 and 60 per cent in the UK.

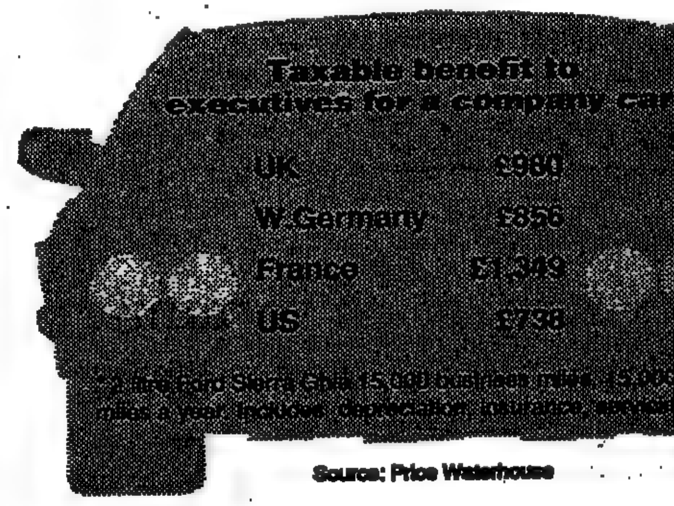
Mike Redhouse, head of remunerations and benefits at Guinness, the international drinks giant, is not alone in complaining that the British are peculiarly preoccupied with the company car. "So far as I know we are the only country in the world to have this fixation," he complains, "If you ask for one in the US, they look at you as if you're mad. There a company car is regarded as an anti-status symbol, a testament to your lowly status as a salesman or a rep."

The company car is embedded deep with the UK's remuneration culture: a fact which reflects on the historical origins of tax arrangements for company cars in the UK, as much as on managers' expectations. Tax arrangements, combined with the bulk-buying benefits that a company gets when it buys or leases a fleet of cars, mean that it costs a company much less to provide a car for an employee than it does for the employee to buy the same car out of his or her after-tax income. The company car in the UK has become an intensely personal symbol of status and success, a visible emblem of power, speed and managerial virility.

The current tax regime in the UK dates back to the Finance Act 1976, which introduced the concept of the scale charge: a figure deemed to represent the amount of benefit that an individual is deriving from his or her company car, on which income tax is levied at the taxpayer's marginal rate. The level of the imputed benefit varies according to a number of factors: the number of business miles undertaken each year, the value of the car, its age and the size of its engine.

High-mileage cars, those running 18,000 business miles a year or more, attract half the scale charge, on the assumption that the car is necessary for the driver to do his job. Conversely, those cars running 2,500 miles a year or less attract one and a half times the scale charge, on the assumption that the car is a perk, not a necessity.

The introduction of scale charges coincided with wage restraint and 83 per cent marginal tax rates. These gave the UK market for business cars a kick-start. The only way for an employee to increase his or her salary was to move jobs: a company car was a way of giving employees a bigger remuneration packet without flouting the law.



Source: Price Waterhouse

The number of employees paying tax on company cars has steadily risen since then, up from 560,000 in 1978-89 to 1.55m in 1987-88, according to figures from the Inland Revenue. It is not known with any degree of precision how many of these are sales representatives hammering their way up and down the motorways of Great Britain, or how many are merchant bankers and managers who get the car as a perk rather than a necessity. But the number of perk drivers is very high: surveys suggest that status is at least as important a criterion in deciding whether to provide a company car as the need to travel on business.

Personnel directors recognise that the company car is an extremely effective remuneration tool, which can have a big effect on recruitment and retention of staff, particularly in "tight" sectors of the labour market where competition for good people is fierce.

Take the example of Coopers & Lybrand, the accountancy and consultancy firm poised to merge with Deloitte Haskins & Sells in the UK. A few years ago, the firm found that up to a quarter of all consultants were leaving every year, an unacceptably high turnover level even for the consultancy industry. The solution was to give cars to people at quite junior levels of the firms' hierarchy. This appears to have had a noticeable effect on recruitment and retention levels.

If effective, the provision of the company car can also be divisive. Common complaints are that car schemes perpetuate stratification of managers according to makes of car, even different models of the same car, with or without sun roofs or a fancy radio. Moreover, the administration of a scheme is complicated, personnel executives complain, and car policies are undermined by the petulant demands of status-freaks haggling over go-faster stripes.

One company has just dropped its car scheme for senior employees. They have been given a one-off cash lump sum to buy the cars back. The result: hordes of employees seething with envy for those lucky enough to have been dispossessed of their company cars. Even at the very highest level, the company car can provoke tension and disunity.

Much as many companies would like to abandon the car-as-perk policy in favour of cash, they cannot afford to do so. "Because of the tax regime and the cost differential, the company car cannot be anything but a good deal for UK companies and their employees," observes one tax accountant.

In the two years since Nigel Lawson launched an assault on the company car, sales of new cars in the UK have vaulted ahead. Over that period, tax rates have come down, so the out-of-pocket cost of having a perk car has not gone up in line with the increase in the scale charge. Many believe that the scale charges now adequately reflect the level of benefit enjoyed by those who do say, 10,000 miles a year or more for work. Thus an across the board increase in scale charges may not be equitable.

Adopting the IFS's recommendation of imposing the national insurance levy (9 per cent of the value of the benefit for the employee, 10.45 for the employer) would provoke cries anguish. A move to penalise perk drivers, on the other hand, would provoke less controversy. It has become more financially advantageous to the company to provide this perk to top people since the abolition of the upper limit for employers' NI contributions in the 1985 Budget. A move to bring the tax charge for such drivers into line with the tax that would be charged if cash of an equivalent value were given instead, would probably be fair as well as popular.

OBSERVER

Kohl without economists

■ Chancellor Kohl was in Erfurt, Thuringia yesterday, making his first appearance in the East German election campaign. He wants to press full steam ahead with his plan for German monetary union.

Kohl is following Ludwig Erhard's instinct that creating the right psychology is the key to economic success: thus he wants to replace the East Mark with the D-Mark. This idea has not gone down too well with the Bundesbank, and indeed illustrates a difference between Kohl and most of his predecessors as Federal Chancellor. He does not have around him in Bonn proven economic advisers.

Kohl is a man for big principles, or the Zeitgeist. He is liable to become impatient when technicians come up with obstacles in the way of his visions. In the Bonn Chancellery, he has avoided running into this problem by the expedient of heavily downgrading the economic policy department, which he rarely consults on anything.

Horst Teltschik, the Chancellor's foreign policy adviser, tends to have the field to himself in economic matters. Teltschik recently caused a stir by stating at a background press briefing that the East Germans were close to running out of money for essential payments. Other Bonn officials are not sure whether the remarks represented the indiscretions of an economic amateur, or whether they were part of a deliberate plot to add to worries of impending chaos in East Germany: probably the former.

Anyway, a commission of officials from the two German states started work in East Berlin yesterday on examining the conditions under which the D-Mark could move eastwards.

The West German team is headed by Horst Koehler, the new state secretary at the Bonn Finance Ministry, who took over from Hans Tietmeyer (now at the Bundesbank) at the turn of the year. But since the team also includes Helmut Schlesinger, the vice-president of the Bundesbank, nothing rash is likely to be decided yet.

The East German side includes Horst Kaminsky, the president of the Staatsbank and a man regarded by the Bundesbank as a hard-line apparatchik. There is also Rainer Eppelmann, a leading opposition clergyman in the days of the Berlin Wall, who now has a ministerial position.

The composition of both sides reinforces the impression that nothing much of substance will happen until after the East German elections on March 18. Still, Kohl clearly hopes that monetary union will be on after that. All quite different from the days when there were economic advisers in the Chancellery like Karl Otto Pöhl. Pöhl is now head of the Bundesbank.

Total retreat

■ Do not go to the Gleneagles Hotel today. For all its 236 rooms, five restaurants and four golf courses in rolling Perthshire, it has been completely cut off from the general public. The occasion is the ministerial meeting of the 13-member Independent European Programme Group (IEPG). This most innocuous and least conspicuous of European defence bodies is devoted to cooperation in equipment. Despite its early promise when it was founded 14 years ago, it rarely decides anything except that it is a good idea to stay in being. Perhaps it should remain locked up in Gleneagles until it comes out with a policy.

Oldham man

■ One man who has contributed to the current success

"I hope no-one finds out about my paper round."

of Oldham Athletic Football Club is Derek Taylor, a director of the Halifax Building Society and managing director of its subsidiary, Halifax Estate Agencies.

An accountant by training, Taylor is in charge of the club's finances. He joined the Oldham board 7½ years ago, about the same time as Joe Royle became manager. It used to be a matter of selling one good player a year to keep going and persuading the banks to be generous, he says.

One of the advantages of the plastic pitch, he explains, is that it can be used all the year round for other activities, like American football in summer. The Council cooperates.

Taylor is a Kent man by birth. He used to support Gillingham, but moved to Oldham when he was 15 in 1955 and has been following the Latics ever since, home and away. He claims to have the most comprehensive files on anything ever written about Oldham since 1962.

He also has a problem. He is a cricket fanatic. Should Oldham reach the semi-finals of the FA Cup, Taylor will be unable to attend, for he has long since been booked to watch England play the West Indies in Barbados. In cricket he has remained totally loyal to Kent.

Oldham have a replay in the fifth round of the FA Cup with Everton tonight.

Next on board

■ At an East-West aviation conference in Paris this week, Garret FitzGerald, the former Prime Minister of Ireland and a board member of GPA, the aircraft-leasing company, was asked if his company was interested in taking on any retired politicians from Eastern Europe. GPA has a penchant for political appointments and recently hired Nigel Lawson, the former British Chancellor.

FitzGerald said the company had no plans at present, but added that he would be delighted to take on Mikhail Gorbachev, if he were to become available. The only other Prime Minister to have been involved in civil aviation was Rajiv Gandhi – though FitzGerald stressed that he had been on the technical side.

After Perrier

■ The French have maintained an imperturbable sang-froid over the discovery of benzene in Perrier water, and the subsequent destruction of its entire world stocks of 160m bottles. Now, the reason is becoming clear: French water companies are providing fizzy water, on tap, at least in certain regions.

Officials at Compagnie Générale des Eaux, the water company, claim that the fizziness is a temporary phenomenon due to the heavy rainfall last week, which trapped a lot of air in the water table. Consumers are unconvinced by this apparently scientific explanation, and prefer to believe that the water company is deliberately trying to capitalise on Perrier's absence from the market place.

More than mere tinkering will be needed to mend Sweden's consensus, reports **Robert Taylor**

Shards of a broken model

Ingvar Carlsson knows the old way cannot be recovered

Sweden's economic and political crisis raises a question that has significance beyond the country's borders. Is it possible to achieve both low inflation and full employment in an economy that combines a free market and an all-embracing welfare state?

Ever since the Great Depression of the 1930s Sweden has been held up as the prime example of a country that had found the answer. The ruling Social Democrats constructed what became world famous as the "Swedish model." This is a consensual system of centralised bargaining between capital and labour within a prudent fiscal framework set by government, strengthened by a welfare state with universally available benefits and a comprehensive labour market strategy. The model was never perfect, but for a long time it delivered the goods, turning Sweden into one of the most affluent and egalitarian countries.

Now there are serious doubts about whether the model has a future as a way of managing the Swedish economy. Kjell-Olof Feldt, who has just resigned as finance minister, suggested a fortnight ago that a proposed freeze on prices, wages, rents and dividends and a strike ban until the end of next year was the "last chance for the Swedish model." He believed that it would at least provide a breathing space to enable employers and trade union leaders to modernise the collective bargaining system.

In fact, the package – which failed to win parliamentary approval last week – was born of panic. In the face of spiralling wage demands backed by strike threats from Sweden's powerful public service unions, the Social Democrats could not agree on any credible alternative to a crude economic freeze.

Mr Feldt failed to win over Ingvar Carlsson, the Prime Minister, or Stig Malm, the leader of the LO blue-collar union confederation, for an additional deflationary package to cut spending programmes. He decided to quit, a move that has distressed the business community and added to the difficulty of finding a political way out of the impasse. Mr Feldt's caretaker successor, Mr Odd Engström, has said he will not seek to continue in the post.

Sweden's problems are not new. Economists have worried for nearly 20 years about the country's relatively low economic growth rate, sluggish productivity and high costs which have threatened its international competitiveness.

In the last decade periodic devaluations of the krona and the upturn in world trade have improved things a little. Mr Feldt presided over Sweden's economic revival and sought to encourage the creation of a more entrepreneurial society by abolishing rules and regulations to free the financial and industrial system. He sought to modify the Swedish model, not destroy it. But he was also well aware that stimulating market forces – above all reforming personal taxation to reward thrift and enterprise – would conflict with the older values of equality and fraternity that dominated Sweden's collective bargaining system.

To Social Democratic traditionalists the resulting rise of the new worker individualism has come as an unwelcome threat even if, for a growing number of Swedes, the values of solidarity and equality no longer exert the same force they used to. Mr Feldt's market socialism confused and divided the party faithful, who feared that it was little more than a Swedish version of Mrs Thatcher's experiment.

But, in the opinion of the modernisers, Sweden has little choice but to readjust itself economically and socially to converge with the rest of western Europe. The political problem will be how to reconcile the basic values of Social Democracy with the new realities.

This could never be a painless process. Indeed, it has turned out to be much more difficult to achieve in conditions of full employment than the modernisers recognised. The very success of the market strategy accentuated Sweden's troubles. The surge in credit of the past few years and rising corporate profitability put added strains on the bargaining system as many workers felt left out of the bonanza.

Party stalwarts like Sten Andersson, the foreign minister, worry that financial deregulation and liberalisation have come to threaten the basic Social Democratic achievements of full employment, social justice and the welfare state. They are concerned that the disintegration of the corporatist bargaining system based on the principle of the same pay for the same work led to divisions between workers, fuelling a wage-price spiral made worse by envy.

The overheating of the labour market – there is next to no unemployment – and a chronic shortage of workers has made it much harder to maintain any stable economic management. At the same time little has been done to remedy the country's underlying problems of low economic growth, stagnant productivity and declining international competitiveness.

The outcome has been a widening of pay differentials in the private sector as employers desperate for workers bow to the imbalance of labour supply and demand in their own plants. Yet it has also provoked a growing pay discontent within Sweden's huge unionised public services sector where one in three of the country's workers now work.

The very size of the public sector has begun to raise serious doubts about its long-term role. Nearly 60 per cent of the country's gross domestic product goes into public spending while an estimated 56 per cent of Sweden's voters – as workers or pensioners – now rely on the public sector for their livelihood. Only the small, though vocal, radical right wants to roll back the frontiers of the welfare state. There remains a consensus across the political spectrum for the defence of universal social provision.

But the weaknesses in the Swedish economy will make it much harder to finance the welfare state in the old way in the 1990s, as demands on its limited resources grow greater.

It is debatable whether the mammoth size of Sweden's public services sector crowds out the market economy. But as Mr Feldt argued in his farewell remarks last week, the public sector's efficiency will be Sweden's chief political issue in the 1990s. Even the trade unions agree that the limits have been reached on what the public will tolerate in higher taxes to feed the public sector's insatiable appetite.

The political impasse, however, does provide the opportunity for the traditionalists in Swedish society to mount a rearguard action against modernisation. If the Social Democrats can reach an understanding with the Centre party, the voice of rural Sweden, or patch up their differences with the Communists, then the pressure for the country to turn inwards in the search for economic remedies for its troubles will grow much stronger. The absence of Mr Feldt's persuasive voice in the public debate has undoubtedly weakened the modernisers at a critical moment.

Ingvar Carlsson, now a caretaker Prime Minister, knows that Sweden cannot afford to turn its back on the world and try to sit out the storm. The country has shifted its economy too far towards those of the rest of western Europe to attempt to restore traditional values behind a wall of rules and regulations. The Social Democrats would be uncharacteristically abandoning their role as a broad-based national party if they chose to appeal narrowly to their shrinking core of manual working-class activists – even though this interest enjoys an over-preponderant influence through the connection between the LO and the party.

Sweden is often regarded as a prototype of the kind of society other democratic left-wing parties in western Europe would like to create. In the past the Social Democrats were flexible and imaginative enough to change with the times. No doubt, Mr Carlsson or somebody else will manage to restore a semblance of cohesion and purpose to the Social Democrats. None the less, the tensions between the market economy and the public sector, between those who want to conserve and those who want to modernise the Swedish model, will be difficult to reconcile.

German monetary union

Reform begins with a currency board

By Steve Hanke and Alan Walters

The two Germanys have agreed to begin discussions about crafting a currency reform. This represents a tiny step along what promises to be a bumpy road.

Chancellor Helmut Kohl's pre-emptive strike on currency reform will, no doubt, provide the starting point for deliberations. The Chancellor proposes a quick switch from two German Marks to one. Such a currency reform would entail the abolition of East Germany's central bank and its unconvertible soft currency. In exchange, the East Germans would accept West Germany's Bundesbank as the sole purveyor of its monetary policy and the D-mark as its legal tender. This proposal has given the Bundesbank's President, Mr Karl Otto Pöhl, and some East German officials considerable discomfort.

But the tensions created by the proposed switch are unnecessary. There is an alternative that should *satisfy* both Mr Kohl and Mr Pöhl, as well as the East Germans.

The currency reform would require that East Germany's central bank be replaced by a currency board. This new institution would guarantee East German monetary stability and establish a fully convertible East German Mark. Thus, the Chancellor's objectives would be achieved. An East German currency board would not affect the Bundesbank's policies and would lay the foundation for a monetary union and eventual German reunification. Mr Pöhl's concerns would be addressed and the East German Mark would be retained. Thus, the East Germans would be able to save face.

Although currency boards appear to be something new, they are not. Currency boards were ubiquitous in the colonial regimes of Africa, Asia and the Caribbean. But as colonies became independent in the 1950s and 1960s, they generally eschewed the currency board system and formed central banks. Perception, rather than performance, engendered the demise of the boards: they were regarded as colonial instruments of exploitation.

This was an unfortunate misconception. Where currency boards survive, for example in Singapore and Hong Kong, they have prevented exploitation by currency debasement. Indeed, these countries have been bastions *of stability in a world of* inflationary expropriation.

The principle attributes of a currency board are:

- Issuance of domestic currency which is readily convertible into a foreign-reserve currency at a specified and fixed rate.
- Domestic currency backed by liquid reserves held by a board and denominated in a foreign-reserve currency.
- Reserves equal to or greater than the value of the domestic currency issued. The discipline of convertibility at a fixed rate and reserve-currency backing establish reliability and confidence.

To establish a hard East German Mark, East Germany should convert its central bank into a currency board. The board would recall old East German Marks and replace them with new ones. The new East German Marks would be fully backed by interest-bearing West German Government bills and D-Mark notes. Moreover, the new East German Marks would be fully convertible and as good as D-marks because the East German currency board would exchange new East German Marks at a fixed rate for D-marks.

The critical question is: at what level should the exchange rate to be fixed? Too high a rate (such as the 1:1 official rate) would render East German industry almost uncompetitive. Real wages would be relatively high, but few workers would enjoy them since employment would be scarce. Similarly, too low a rate (say 1:10) would result in a shortage of labour as the world would rush to employ the low-wage workers in East Germany.

In our view, it would be best to fix the new East German Mark rate near the present "free" rate (1:8). It is true that at this rate holders of East German Marks would not receive a subsidy from West Germany as a consequence of the reform. However, transparency dictates that any subsidy should be an explicit one from the West German Government and the country's voters to residents of East Germany, rather than an implicit one facilitated through a currency reform.

A currency reform along these lines would assist the *East Germans in their attempt* to escape the grim realities of socialism. The East German public purse would be out of reach from plundering politicians since they would no longer have access to East German Mark printing presses. Hence, East Germans would enjoy roughly the same low inflation and interest rates as West Germans. In consequence, East Germans would be as willing to hold new East German Marks as D-marks.

With an East German currency board, foreign investors would be able to convert new East German Marks into a hard currency and repatriate profits earned in East Germany. This convertibility feature would facilitate trade, establish investor confidence and encourage the inflow of foreign capital. Non-governmental linkages between East Germans and international capital markets would be established. These linkages would promote the creation of international bank branches in East Germany. Such branches would give the East Germans access to large pools of competitively priced capital and international expertise. Other advantages include economy, simplicity and automatism.

Chancellor Kohl is correct. The East German central bank instills little confidence and produces unconvertible soft Marks. Thus, its existence jeopardises liberal economic reforms. Mr Pöhl is also correct. An immediate monetary union between the two Germanys would threaten the Bundesbank's autonomy and sound monetary policies. To satisfy the concerns of Mr Kohl and Mr Pöhl and allow the East Germans to retain a sovereign monetary institution until the two Germanys are reunified, an East German currency board must be established immediately.

The authors are professors at The Johns Hopkins University in Baltimore. Sir Alan Walters, until recently, was Prime Minister Margaret Thatcher's personal economic adviser.

LETTERS

Roof tax and the utterances of the commissars

From Mr M.H. Dulcken.

Sir, I read your editorial comment ("The case for a roof tax," February 16) with increasing anger, particularly at your suggested callous treatment of people living in high value properties but on low incomes.

This could apply particularly to the retired, who apparently are to "up sticks" and move away from their roots – not recommended by the medical profession – or alternatively move to a lower standard of home locally to follow your dictum, just as they have probably come to the end of their mortgage period.

Thus they are forced away from what they have spent years to acquire, by your policy of "eviction by taxation."

Your sneering reference to the "little old lady who lives in a mansion" who is to be forced out by taxation bears all the hallmarks of the utterances of the commissars who are getting their come-uppance in eastern Europe.

M.H. Dulcken
64 The Croft,
Barnet, Hertfordshire

From Mr M.C. Fitzpatrick.

Sir, As a practising tax consultant and an adviser on taxation policy to the Social and Liberal Democrats, I am intrigued by the Labour Party's coyness with regard to its so-called roof tax proposals.

These will apparently be based on the capital value of the property concerned, but somehow linked to income as well.

There is considerable speculation *as to what this* actually means, but one possibility would be to establish a standard roof tax on the dwelling concerned, and then apply it in the following way:

- Basic rate taxpayers would pay the basic roof tax.
- Non-taxpayers would pay either no roof tax, or a much reduced rate of roof tax.
- Higher rate taxpayers would pay basic roof tax plus, say, a 25 per cent premium.

It will be appreciated that one effect of the above theoretical possibility would be to produce an effective overall marginal tax rate of infinity as people move from non-taxpayer status to taxpayer status. While a dispassionate observer might be somewhat relaxed in the case of a person who has moved from being a basic rate taxpayer to a higher rate taxpayer, the effect on somebody who just enters the basic rate tax threshold would be catastrophic. Indeed, this would represent the deepening of the poverty trap, which both the SLD and the Labour Party are, quite correctly, concerned about.

Overall, it would appear that any proposal to link a flat rate tax to income will produce very high marginal tax rates at certain "kink" points.

If the Labour Party *fails* to clarify what exactly is meant by "a roof tax linked to income," *it* can hardly object to the damage which will be caused to it by other people attempting to clarifying the question for it.

M.C. Fitzpatrick,
15 Stafford Close, NW5

The CBI's dislike of 'going rates and norms'

From Mr Richard Price.

Sir, Would it help Professor Layard (Letters: February 14) if we were to make it clear that the Confederation of British Industry most certainly does not believe that there must be, or can be, some simple one-to-one relationship between changes in pay and changes in labour productivity?

What we do believe is that pay settlements, taking account of improvements in productivity and performance, must be consistent with the firm's ability to compete in the world market-place and to do so profitably.

Equally, the firm has to compete in the labour market, offering reward which enables it, to use the time-honoured phrase, to recruit, retain and motivate.

When these two objectives cannot be reconciled, markets, investment and jobs are lost.

There is almost certainly some scope for greater cohesion between UK employers around the edges of the pay determination process (for example, in sharing information about the realities of individual pay settlements), but as far as the core process is concerned, the trend is firmly in the other direction.

It is only at and within individual firms that the pay/performance/competitiveness equation can be estimated, alongside labour market considerations. Circumstances between and within firms will always vary very greatly. That is why talk of "going rates" and "norms" seems dangerous to us.

R.H. Price,
Executive Director
(Government Relations),
CBI,
Centre Point,
103 New Oxford Street, WC1

Sanctions a matter for consumers

From Mr Paul Walker.

Sir, Joe Rogaly's support for sanctions against South Africa ("Trumped by Mr Mandela," February 13) displays a selective morality which is depressingly familiar. Reading his article, one could be forgiven *for thinking that the only form of* discrimination that matters is racial, specifically white against black.

Ethnic Chinese in Malaysia, Untouchables in India and the Hutu majority in Burundi would disagree. Cuban political prisoners, subject to sickening abuse, would similarly find it hard to understand why racial discrimination is somehow inherently worse than the political or religious kind.

One wonders why Mr Rogaly's enthusiasm for sanctions was not directed at the Romanian or Bulgarian regimes of only a few months ago. Unfortunately, South Africa presents the most attractive target to the media and much of western liberal opinion, including Mr Rogaly.

Whether to boycott South African wines, Cuban cigars or Sri Lankan tea is a decision for consumers, not governments. To advocate sanctions against one and exempt the *others* is surely hypocritical.

Peter Walker,
PO Box 3520,
Düsseldorf,
West Germany

Bank guidelines 'useful' on debt and tax relief

From Mr T.A. Fletcher.

Sir, I wish to comment on points raised by Mr John Newman about tax relief for bad debts (Letters, February 13).

According to Section 74(j) Taxes Act 1988, when computing trading profits chargeable to income tax (or corporation tax) relief will be allowed for "bad debts proved to be such, and doubtful debts to the extent that they are respectively estimated to be bad, and in the case of the bankruptcy or insolvency of a debtor the amount which may reasonably be expected to be received on any such debt shall be deemed to be the value thereof."

Each case needs to be considered in the context of its own circumstances, but it has been my experience that on occasions a deduction for a bad debt involving a company debtor has been allowed without having to show that an administrative receiver had been appointed, or that the company was in liquidation or receivership. However, that degree of proof would usually be required when dealing with claims of very substantial amounts.

When the debtor concerned is a foreign sovereign power, or a foreign government agency situated overseas, a creditor in the UK may have few means, apart from diplomatic pressure, to enable its rights to be enforced. Any action at law would usually need to be taken in the foreign courts, where the legal system may be controlled by the debtor. In such circumstances, it is unlikely that the creditor will be able to obtain any effective redress by legal process. Nevertheless, if a debt of that kind is irrecoverable, or partly irrecoverable, the creditor should be allowed taxation relief in accordance with Section 74(j).

The amount of relief to be allowed for a particular accounting period may require some judgment, but I believe the guidelines published by the Bank of England give a useful reference point around which the clearing banks ought to base their negotiations with the Inland Revenue.

T.A. Fletcher,
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FINANCIAL TIMES
Wednesday February 21 1990

US and Japan agree jet fighter plan after long delay

By Stefan Wagstyl in Tokyo

THE US and Japan have reached agreement in the final stage of long and tortuous negotiations over joint plans to build a new jet fighter for Japan.

Mitsubishi Heavy Industries, the main Japanese contractor, said yesterday it had completed a basic agreement with General Dynamics, its US counterpart. The announcement came on the day that Mr Richard Cheney, the US Defence Secretary, arrived in Japan for meetings with defence officials.

The talks will concentrate on US plans, announced last week, to cut its forces in the Far East, including a proposed reduction of 4,000-5,000 in the 60,000 troops stationed in Japan. This reflects Washington's wish to cut costs and a belief that the threat from the Soviet Union is diminishing in the Far East since Mr Gorbachev announced defence cuts.

Mr Cheney is also expected to repeat US demands for Japan to bear a bigger share of its defence costs, including increased contributions to the cost of the US forces in Japan and increased purchases of US armaments.

The long delays in signing the Y835bn ($5.6bn) FSX agreement are bound to influence the discussions on Japan's procurement plans. Japan originally wanted to develop its own fighter to replace its fleet of US-designed F-1 aircraft. But, under pressure from the US, it agreed to fund instead a co-developed fighter, the FSX.

Tokyo and Washington initialled a pact in late 1988, but it ran into opposition from US congressmen, who claimed the agreement handed over to Japan too much technology and gave too little work to US companies. President George Bush was forced to renegotiate and a second agreement was made last summer.

But when the contractors started discussing details, new difficulties emerged over precisely what technology was covered and under what terms it could be used by the Japanese side. Then Japanese companies raised objections about the technology they were intending to put into the project, which would then be made available to General Dynamics and its American partners. Each side was worried that the other might be able to adapt what it learnt from the FSX to other ventures.

As a result the project is 16 months behind schedule and Japan will not be able to start deploying the new jets in 1997 as planned.

By comparison with the FSX, Mr Cheney's plans for troop reductions are unlikely to cause much strain to US-Japan relations. He announced in South Korea last week that he planned to reduce by 10-12 per cent the 120,000 troops in the Far East over the next three years, while promising not to cut American military capability in the region.

The troops who will leave Japan are expected to be support forces. Mr Juro Matsumoto, director general of the Japanese Defence Agency, said the US did not intend to cut the quality or capability of its forces in Japan.

Washington would like to see Japan pay some $4bn (£2.4bn) of the $6bn bill, against the $2.4bn it currently pays. Japan covers the cost of buildings and land and contributes to the salaries of 22,100 Japanese employees at the bases.

Ketchup war will be fought to the last drop

Heinz's experience typifies food groups' problems in Japan writes **Robert Thomson**

THE humble bottle of tomato ketchup stands as a small monument to the often bitter battle between domestic food producers and foreign companies whose products are finding their way into the Japanese kitchen since the lifting of import restrictions.

Before the restrictions were removed last July, Kagome, the largest producer, replaced its traditional soft plastic sachets with a hard plastic bottle in an attempt to pre-empt Heinz, the US company which sells 50 per cent of the world's ketchup.

The packaging change annoyed devoted ketchup customers in Osaka, Japan's second-largest city.

They were accustomed to cutting the sachet and scooping out the last dobs, and found that the plastic bottle was more resistant to scissors and that ketchup lingered tantalisingly in the bottom of the bottle.

"I was born in Osaka, and maybe you can say that people from my home town are money conscious," says Mr Hidenori Nishi, Kagome's corporate planning manager. "Osaka people believe that to dispose of food without having used it all is wrong. We are not able to throw away unused ketchup."

Kagome, which has just over 60 per cent of the ketchup market, has reintroduced the sachet.

Meanwhile, Heinz, which hopes to turn its share of 1 per cent into 10 per cent within five years, is encouraged by its competitor's false move. Kikkoman, the soy sauce maker, has about a 20 per cent share, and a farmers' co-operative has 12 per cent.

While the US company's ambitions may be modest, Kagome is concerned, Mr Nishi said, because "Heinz is the biggest in the ketchup world" and "if they strongly try to take a share of the Japanese market, they have big money and big resources available".

Strong rivalry has already emerged between the two companies, with Mr Minoru Noda, the general manager of market for Heinz Japan, criticising Kagome for big discounts that he says leave the company with a loss on sales of its standard bottle. Kagome said that it does not lose on discounts because they are selectively introduced.

"We are involved in a price war," Mr Noda said. "Obviously their strategy is to maintain market share with these big discounts, but it is ridiculous at the moment. They could sell their product for Y20 (12 cents) higher and they would maintain their market and make a profit. We cannot understand it."

Heinz has decided not to match Kagome with yen-for-yen discounts, preferring to trade on Japanese quality consciousness, a tactic successfully used by foreign makers of cars, Scotch whisky, and clothing.

Japan's distribution system has been cited by the US as a major "structural impediment" to free trade, but the complex network of small "mom and pop" stores, identified as the front line of the problem, play only a small role in ketchup marketing, and 80 per cent of sales are at larger stores or supermarkets.

Heinz is using a distribution network already established for its lemongrass sauce, with which it has an 80 per cent market share, and its white sauce (60 per cent).

The company says that the successful sales record means no "shelf fees," which some manufacturers must pay to ensure prominent display of a new product in the limited space available in Japanese outlets.

The volume of ketchup consumed has peaked with 99 per cent of Japanese homes using it. However, they are eating out more often and that is where the growth potential lies.

Ministry of Finance figures show that in 1983 13 per cent of the family food budget was spent in restaurants. That rose to 15 per cent in 1988.

Heinz and Kagome differ over the causes of the flat market. Mr Noda at Heinz suggests that Kagome, as market leader, should be doing more to educate consumers in the use of ketchup, while Mr Nishi at Kagome insists that his company has been instructing consumers for 82 years.

"Ketchup is a foreign product to Japan and when we began producing it, Japanese did not know how to use it. We are very proud of the educational history."

Mr Noda said that if Kagome "does not do more to educate the consumers, the market will not grow," so "we are trying to activate the market." Heinz predicts that about 30 per cent of Kagome's customers could change brands, although the traditional Kagome recipe includes more sugar and less vinegar than the Heinz formula in the US.

India to delay a decision on Airbus flights

By David Housego in New Delhi

THE Indian Government is to postpone a decision on resumption of flights by the Airbus A-320 for at least a week and possibly considerably longer.

India grounded its 14 A-320s on Sunday because of public fears about their safety following the crash of a two-month-old Airbus in Bangalore last week, in which 90 people died.

Indian officials also confirmed, in what could be the beginnings of a major tussle with France, that the French Government, through the French embassy in Delhi, had requested that Airbus be given a transcript of the recording from the cockpit, recovered from the black box.

The Indian Government, however, has ruled that it will be up to the court of inquiry to decide on whether data from the cockpit voice recorder and the digital flight data recorder – expected by the weekend – will be made available to Airbus.

The refusal to accede to the French Government's requests reflects the deep suspicion within Prime Minister V.P. Singh's new Administration about the Rs2.5bn ($149m) purchase of 31 Airbus A-320s by the former government of Mr Rajiv Gandhi. The new Administration appears to be distancing itself from the Airbus group.

The decision to postpone the decision on resumption of flights emerged yesterday as a committee under Air Marshal S.S. Ramdas of the Indian air force was set up to see whether Indian airlines and Indian airports have the infrastructure to handle the new aircraft.

Mr Arif Mohammad Khan, Minister of Civil Aviation, said he had asked the committee – which is separate from the court of inquiry looking into the causes of the crash – to submit an interim report in a week. "But if they need longer, I am not going to be strict about it," he said. He emphasised that safety was his major concern.

The Indian Commercial Pilots Association, which saw Mr Arif Khan yesterday, declared afterwards its support for the suspension of Airbus A-320 flights. They urged that the suspension should remain in force until a full check of airborne equipment and ground facilities had been made.

The pilots' main concern was the number of "snags" that had developed during the normal operations of the aircraft for which neither Airbus Industrie nor the maintenance staff has yet provided an adequate explanation.

They mentioned failures of the hydraulic system, loss of pressure in the cabins and spurious alerts by the on-board computers including fire warnings. "It is not a very happy atmosphere in the cockpit with one snag after another," said Captain P.K. Gupta, the secretary of the association.

There is as yet no sign that the Indian authorities have come across evidence of a major equipment failure in the inquiries into last week's crash.

However, several other factors seem to have weighed heavily in the mind of Mr Arif Khan, the minister responsible for the decision to ground the aircraft, which he claims has met with strong public support. In the wake of the accident, four other equipment "snags" involving the 14 other Airbus A-320s were reported.

The second factor was the pressure from passengers – some of them influential – who were nervous of flying in the aircraft.

The third factor reflects the ideological stance of the new Government which wants to demonstrate it can stand up to multinationals.

"Too often the attitude is: What can we do? We don't have the power or money," said Mr Khan. "This attitude cannot be allowed."

Channel tunnel contractors agree deal

By Andrew Taylor in London

CONTRACTORS building the Channel tunnel last night reached agreement with Eurotunnel, the project's owner, over a new management structure.

The deal, which was due to be signed late last night, should allow Eurotunnel to start drawing down £400m ($680m) of temporary finance frozen by the group's bankers.

The construction companies met Eurotunnel in London to reply to the group's proposals to appoint a new senior executive to its project management team.

The new executive, Mr John Neerhout, formerly of Bechtel, the large US construction group, would be expected to act as a buffer between the contractors and Mr Alastair Morton, who was appointed chief executive of Eurotunnel last week.

Mr Morton, formerly Eurotunnel co-chairman, had antagonised the construction companies by publicly blaming them for delays and the increased cost of the project.

The contractors had declined to sign an amended construction agreement in protest at Mr Morton's appointment. Eurotunnel's bankers, however, are now expected to sign the document allowing the group to draw more funds.

The appointment of a new executive, proposed at a meeting with the British contractors at the Bank of England on Friday, was approved by French construction companies. It brings into question the role of Mr Tony Ridley who heads Eurotunnel's project management team.

Background, Page 9

Bugging claim in UK takeover battle

By Paul Cheeseright in London

DARK HINTS of industrial espionage swirled around the property sector of the London stock market yesterday when Laing Properties, the UK property group with substantial US interests, disclosed that it had found a listening device in its offices and had reported the matter to the City of London Takeover Panel.

Laing Properties is on the receiving end of a £441m ($750m) hostile bid from P&O, the shipping, construction and property group headed by Sir Jeffrey Sterling and Chelsfield, a private property company controlled by Mr Elliott Bernerd.

The bug was found during a search of the Laing headquarters in north London last week-end in what the company referred to as "a senior executive office."

P&O rejected any idea that it had put the bug in place: "The form of the announcement with its unfortunate reference to the Takeover Panel and without any prior consultation with us is wholly mischievous and particularly so in the context of the bid."

"We deplore the fact that a device has been placed," P&O continued, "and we take it that Mr Chilver has demanded a full police investigation."

Mr Brian Chilver is the chairman of Laing Properties. But yesterday afternoon police detectives said the matter had not been referred to them.

The Takeover Panel, meanwhile, played a straight bat to the Laing request "that it (the placing of the bug) should be fully investigated."

"It is not a matter for us to investigate, but for the police," it commented.

The bug was found in what appears to have been a regular sweep of the Laing offices for electronic listening devices. "The offices were previously searched in December," Laing said. Reaction to the discovery, however, appears to have been leisurely.

The group did not apparently talk to its advisers, N.M. Rothschild, on the financial side and City Focus on the communications side, until Monday and the decision to make the matter public was not taken until yesterday morning.

How all of this might affect the P&O-Chelsfield takeover bid perplexed the stock market. Conflicting theories abounded as to who might have placed the bug, but buyers and sellers stood back: Laing shares finished the day unchanged at 670p, while P&O shares closed 3p lower at 518p.

Analysts clung to their established view that the success or otherwise of the bid would depend on whether the Laing family and its trusts, with 40 per cent of the equity, remained solid in its opposition, rather than on apparent episodes of corporate derring-do.

WORLD WEATHER

°C °F

C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Figures as at mid-day yesterday

UK angers EC partners

Continued from Page 1

sanctions – bans on the import of South African iron, steel and gold coins – as well as a non-binding ban on new investment.

Mr Hurd said his legal advice was that Britain could scrap the latter measure unilaterally, but not the trade bans contained in EC and national legislation. This compromise found some favour with the EC Commission, but none with any other EC state, Mr Hurd admitted.

He said the compromise offer had been cleared in advance with Mrs Thatcher, even though at the same time the Prime Minister was telling the House of Commons: "We believe it is right to lift step by step some of the sanctions, just the voluntary ones."

Mrs Thatcher emphasised that bans were voluntary and said that a decision by BMW South Africa to embark on the next phase of a five-year investment programme would mean jobs and improved living standards.

Soviet leader spells out terms

Continued from Page 1

"Nobody cancelled the responsibility of the four powers, and only they themselves can decline it," Mr Gorbachev says. "There is still no peace agreement with Germany. It is still this agreement that can finally determine Germany's status in the European structure in terms of international law."

Unification must have at its core "a fundamentally new structure of European security which will replace the one based on blocs," he says.

THE LEX COLUMN

NatWest runs to stand still

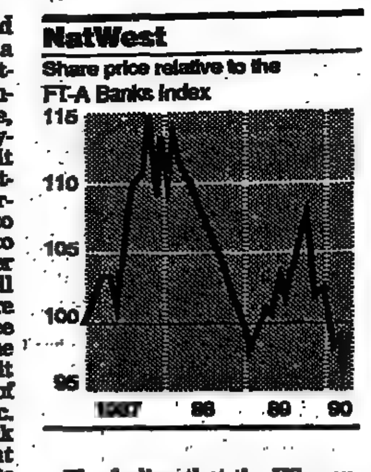
Given the way Third World debts are fast becoming just a bad memory for National Westminster and that its UK loan-book looks largely horror-free, something else must be worrying investors into leaving it perhaps the world's cheapest-rated triple-A bank. Yesterday's 7p rise in the shares to 340p, a reasonable response to a higher-than-expected 18 per cent dividend increase, still shows them trading at a mere 1.1 times book value. To see this as a hangover from the Blue Arrow affair and what it said about NatWest's depth of management seems simplistic. More likely, the trouble is lack of conclusive evidence that with the problems of the 1980s behind it, NatWest is dealing better than its rivals with those of the 1990s, productivity above all.

As regards LDC debt, NatWest's £890m provision leaves its unprotected after-tax exposure to Third World nasties at only about 5 per cent of its capital and reserves. As for UK domestic lending, while the £320m bad and doubtful debt provision looks high, it was well flagged at the interim stage; and only £160m of it is in the commercial sector. But as percentage growth in UK domestic lending slips from the mid-20s in 1988 to 19.6 per cent last year and single-figures in 1990, the real snag is to see how NatWest can maintain passable earnings momentum without getting cost savings through faster than its target of £200m per annum by 1992.

With Barclays' UK staff union jibbing at a 9.15 per cent wage offer, the pressures are mounting. Given the UK economy's slowdown, it would have been asking a lot to see NatWest get back to its 1986 cost/income ratios of about 64 per cent; and the move up to 67 per cent in 1989 is not dramatic. But the fact that NatWest's branch head-count only fell about 700 in 1989 suggests that less than one in four of its bank managers were prepared to sacrifice any staff.

Markets

With luck, Wall Street's sharp fall yesterday will prove to have been a mere adjustment after Monday's market holiday. But there is a more worrying possibility. In their own insular way, the US markets have so far noted the rise in Japanese and West German bond yields without necessarily drawing domestic conclusions. That may now be changing.



The feeling that the US economy represents an oasis of calm is understandable. The course of events in West Germany is so unpredictable that a risk premium for D-Mark investment is perfectly natural. In Japan, the problems are still those of excessive growth and liquidity rather than the reverse. By comparison with either, the US economy is at a more mature stage in the cycle and politically more stable. But the US is also a debtor nation on a massive scale: and it may yet prove that bond yields are being driven up not so much by inflation as by worldwide competition for savings.

Mr Greenspan's testimony yesterday did nothing to help sentiment, even if he may have said little he has not said already. There are signs, he said, that the US economy has finally turned the corner, so that inflation could easily accelerate without corrective action. That message has been implicit in the bond markets since the turn of the year; and the easing of policy which took place at the tail end of 1989 is already a fading memory.

Long bond yields in the US are now around 8.6 per cent, while yesterday in West Germany and Japan they moved through 9 per cent and 7 per cent respectively. The difference is that US yields are still towards the lower end of their five-year range. Japanese and German yields have not seen these levels since the early 1980s. If the US starts to catch up, Wall Street is right to worry: and UK equities, which yesterday closed at this year's low on the FT-SE, should worry as well.

Money supply

Although January figures for both M0 and M4 in the UK showed improvements on December, there was little reason for the gilt market to celebrate yesterday. The annual rise in sterling lending is still 20.4 per cent; M0 would have been rising at 6.3 per cent but for a temporary drop in banks' operational deposits at the Bank of England. Under the old 18 month time-lag theory, those figures would mean more inflationary trouble in late 1991, around election time. But the Government has long since given up the pretence of monetarist rectitude. In theory, M0's target range will be limited to a 4 per cent peak next financial year; but the Budget gives the new Chancellor a golden chance to abandon the whole charade.

The figures do little to resolve the hard/soft landing debate. It is still unclear whether increases in corporate borrowing reveal continued economic strength or distressed balance sheets. Although January's rise was probably seasonal, the jump in lending to construction companies hardly improves the quality of bank loan portfolios. A third year of deficit for the corporate sector really would be unprecedented. Of the likely consequences, a cutback in corporate spending would push the economy closer to recession. But the alternative for the equity market is scarcely more palatable – rights issues and a decline in dividend growth, or a combination of the two.

Sock Shop

The proposed appointment of administrators for Sock Shop looks like the final straw for its long-suffering shareholders. The device is broadly equivalent to the US Chapter 11, whereby Sock Shop has protection until it can sort out its refinancing. In the meantime it is proposed that the shares should resume trading, which is at least good news for those who want to get out whatever the cost.

It is hard to see what form a cash call on shareholders could now conceivably take. At the suspension price of 34p, Sock Shop's market capitalisation is £7.5m, or a little under half its debt. An injection of £10m, for instance, would require a rights issue of around two for one. If the banks want to safeguard their investment on their own terms, well and good. Shareholders who have lost their investment still retain their equity entitlement should any recovery take place. It is hard to see why they should risk more in the meantime.

INSIDE

Banking on change

Adelaide Steamship, headed by the entrepreneurial Mr John Spalvins, left, yesterday *began moves to pay off* some of its debts. It is selling a 7.5 per cent stake in the Australia and New Zealand Banking Group to Westpac Banking Corporation, the largest of Australia's Big Four commercial banks, for A$410m (US$312m). Westpac's purchase is seen as a broadly defensive move in the event of a big reshuffling in the ownership of national or regional banks. Page 23

Mandela speaks to the market

Foreign investors' enthusiasm before the release of Mr Nelson Mandela quickly evaporated when the African National Congress leader reaffirmed his commitment to nationalising private assets, including the mines. The South African market dropped 7.4 per cent last week, after the previous seven days' 4.6 per cent rise. Elsewhere, it was mostly a sluggish week, with the FT-Actuaries World Index finishing almost unchanged. Page 40

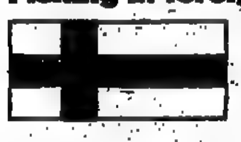
Heirloom leaves the family

The Mexican Government is about to dispose of its family antique, the ancient silver mining enterprise Compania Real del Monte y Pachuca, put up for privatisation last August. *The Grupo Autrey will acquire an operation* that as recently as five years ago was using steam to operate its hoists. But its romantic associations are unquestionable: the complex's outcrops of silver are thought to have been worked by Aztecs and some of Montezuma's treasure came from the veins underneath the adjoining mountains. Page 28

Not-so-instant recall

The shock waves of an affair that two years ago hurtled the Kuwaiti ruling family into an unwelcome blaze of publicity are still reverberating. The decision to recall Mr Fouad Jaffar, the long-standing general manager of the London-based Kuwait Investment Office, was interpreted yesterday as a delayed reaction to the KIO's purchase in 1988 of 21.7 per cent in the BP oil group. Victor Mallet reports on the latest ramification of the affair. Page 20

Fishing in foreign waters



Finland is putting out the bait, but few are biting. A programme of reforms and liberalisation aimed *at attracting foreign capital has so far failed to* draw many investors. The problems appear to stem from a weak economy and the uncertain timetable of reform. Enrique Tessieri reports on the controversy over existing and planned reforms and the barriers that still exist to foreign hopefuls. Page 25

Market Statistics

Companies in this section

Chief price changes yesterday

FRANKFURT (DM)				**Rises**			
Rises				Schneider	888	+	8
Spmg Vlg ng	830	+	30	Seb SA	1044	+	10
Falls				**Falls**			
Altana	420	−	10	Accor	827	−	26
BMW	633	−	25	Eurocom	1605	−	15
Karstadt	685	−	29	LVMH	4889	−	50
Lahmeyer	930	−	10	Valeo	665	−	24
Volkswagen	551	−	20	**TOKYO (Yen)**			
NEW YORK ($)				**Rises**			
Rises							
Great Nth Nek.	55⅞	+	1⅝	Heiwa Polymer	1150	+	110
Hilton Hotels	65	+	1½	Kosugi Sangyo	1650	+	180
Falls				Morio Denki	1330	+	150
IBM	103	−	⅞	Toyo Takasago	999	+	100
MCI Comm.	31⅝	−	⅞	Wakachiku	2110	+	280
Nordstrom	27¾	−	1⅜	**Falls**			
Philip Morris	37½	−	⅞	Suzuki Ind.	1890	−	290
PARIS (FFr)							
LONDON (Pence)				Commercial Un.	490	−	14
Rises							
Barclays	555	+	4	*MacAlpine (Alf.)*	345	−	13
Eurotunnel Uts	580	+	7	RHM	405	−	5
Lloyds	290	+	3	RMC	800	−	14
NatWest	340	+	7	Shell	474	−	7
Next	105	+	2	SW Water	192	−	7
Falls				Tarmac	218	−	10
British Gas	221½	−	4	Unilever	636	−	11
Burmah	643	−	10	VPI Grp.	26	−	10
Cityvision	134	−	8				

NatWest profits fall £1bn

By David Barchard

BAD DEBT provisions and other exceptional items knocked £1bn ($1.7bn) off the 1989 pre-tax profits of National Westminster Bank, the second-largest UK banking group.

Pre-tax profits at NatWest plunged to £404m from £1.49bn a year earlier, although the bank's trading profit of £1.88bn was 13 per cent higher than last year.

The heaviest blow to NatWest's profits came from provisions against problem country debt. These rose to £990m from £49m a year ago, but the bank also increased its provisions for bad debts in the UK from £191m to £320m and made provisions of £136m for doubtful lending by its subsidiaries in the US.

The problem country provisions, which cover 75 per cent of NatWest's exposure, had been expected and did not alarm the City of London where NatWest's share price rose by 7p during the day.

Analysts said that NatWest was coping fairly well with the downturn in the UK banking market, even though its UK financial services business reported profits of £951m, 14 per cent lower than a year ago. However, there was some surprise that NatWest had made such heavy provision against possible losses in the UK.

In the US, the provisions were partly triggered by the downturn in the New Jersey property and construction market where the group has exposure of $670m. It has made provisions against 10 per cent of this lending and a bank spokesman said yesterday that NatWest's exposure in this market was about half that of its main US competitors.

Reduced contributions from its mortgage and finance subsidiaries were partly to blame for the fall in profits, but Mr Tom Frost, group chief executive, said that the interest-bearing current accounts the bank launched early in 1989 in response to its competitors had cost £100m.

During the year NatWest managed to keep its operating costs and staff numbers in the UK unchanged from last year. However, it said yesterday that it planned a staff reduction of 11,000 over the next three to four years.

Mr Roger Flemington, chief executive UK retail banking, said that there would be no redundancies and that the cuts would come from natural wastage and redeployment.

NatWest's total assets grew from £98.6bn to £116.18bn during the year. This was not sufficient, however, to close the gap with Barclays and restore NatWest to the position it previously occupied as the largest UK banking group.

The group's investment banking activities, which include County NatWest, reported an improved performance, although an exceptional payment of £50m arising from the abortive Blue Arrow rights issue in 1987 produced a loss of £16m.

This was slightly below the £21m loss of NatWest's investment banking activities last year.

Midland Bank, the third-largest member of the "Big Four" announces its 1989 results tomorrow. It will be under strong pressure from the market to increase provisions against its £4.8bn problem country debt.

Lex, Page 18

Lord Alexander: chairman of NatWest Bank

Zenith in row with Bull over sale price

By Alan Friedman in New York

ZENITH ELECTRONICS said yesterday it was involved in "a major dispute" with Groupe Bull of France over the price to be paid by Bull for the US consumer electronics concern's Data Systems computer subsidiary.

The row has prevented Zenith from releasing full 1989 results that include discontinued operations. Excluding the computer business, Zenith yesterday turned in a loss of $17m or 64 cents a share from continuing operations for 1989, against a loss of $11m or 42 cents in 1988. Sales rose to $1.55bn last year from $1.4bn.

The sale of the computer business, for up to $635m depending on net asset valuations, was announced last October, but the dispute has arisen now because of what Zenith termed "the substantial deterioration of the business in December."

At the time of the sale the computer business seemed an attractive and profitable company, but within weeks Zenith revealed that the business had turned into a loss-maker.

Mr Jerry Pearlman, Zenith chairman, yesterday called the row "a difference of opinion of significant magnitude" and said "neither we nor our auditors can predict the outcome of discussions, possible arbitration or other action."

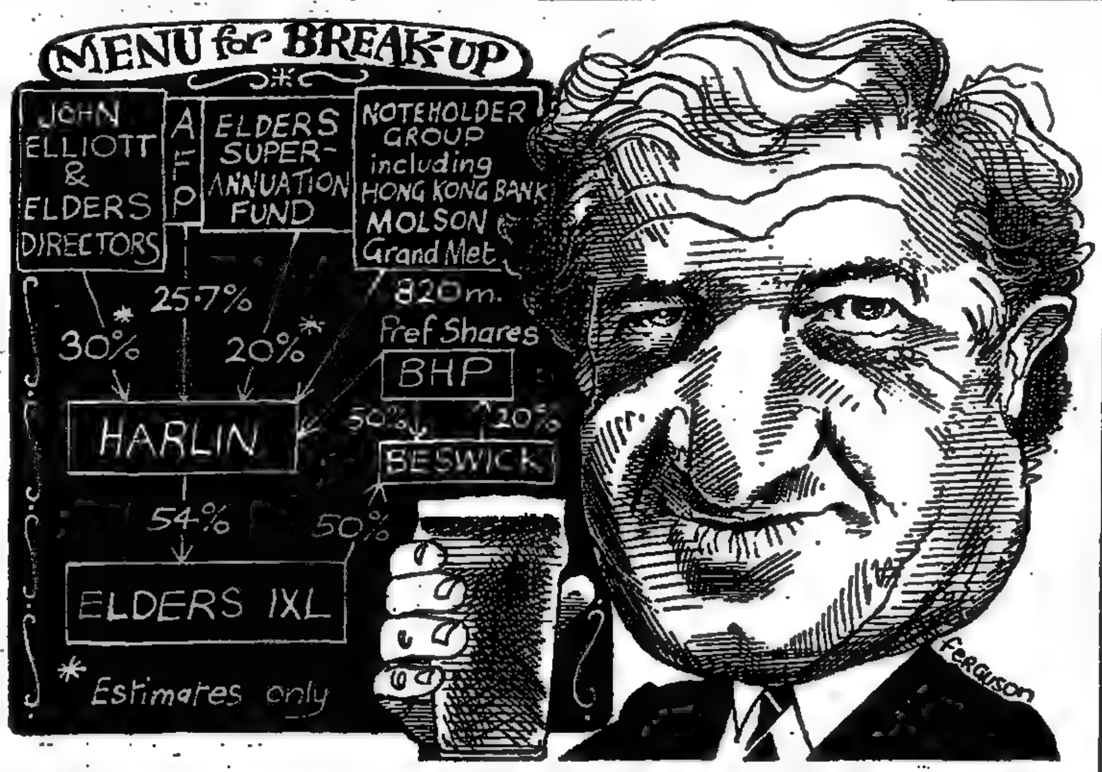
Zenith was paid $496m by Bull on December 28, which according to the Illinois-based company represented 90 per cent of a total sum that was to have included a $91.9m premium plus the adjusted net book value of the computer business as at the end of November.

But a speedy deterioration in the business in December caused Bull to demand a $49m refund, plus interest, which Zenith is refusing to pay. Zenith, which employs a workforce of 3,000 in the US and an overall total of 30,000, including Mexican assembly workers, is the only surviving US-owned integrated manufacturer of colour television sets.

Its consumer electronic sales last year amounted to $1.3bn, up by 8 per cent. Its components sales were 21 per cent higher at $261m.

The company said it made a $4m net profit from continuing operations in the fourth quarter of 1989, down from $7.8m in the same period of 1988.

Previously Zenith had estimated a $22m fourth-quarter extraordinary gain from its computer business sale. Yesterday morning Zenith's share price was ¼ point down at $8¾.



John Elliott: analysts suggest that the end of Elders' wheeler-dealer phase is nigh

Minorco makes offer of $705m for Freeport Gold

By Kenneth Gooding, Mining Correspondent

MINORCO, the South African-controlled investment group which last year made an unsuccessful $3.5bn hostile bid for Consolidated Gold Fields of the UK, last night agreed to take over Freeport McMoRan Gold of the US for $705m cash.

The deal puts Minorco, which is 60 per cent owned by Mr Harry Oppenheimer's Anglo American Corporation-De Beers group, well on the way to achieving its objective of becoming a major international natural resources group. Yet it still will have about $1.8bn left in its cash chest.

"This is a meaningful acquisition but it still leaves us with a lot of fire power," said Mr Roger Phillimore, Minorco's commercial director, yesterday.

Freeport Gold is 81 per cent owned by Freeport McMoRan, the New Orleans-based natural resources group which announced last November that it was putting up for sale the gold subsidiary and other assets, together worth about $1.5bn. In future Freeport is to concentrate on its copper/gold operations in Indonesia and sulphur production in the US.

Minorco, which is quoted in Luxembourg, will offer $17 for each Freeport Gold share compared with yesterday's market price before the announcement of just under $14.

Last year Freeport Gold's net earnings were $13m, which means that Minorco is paying nearly 55 times historic earnings and a 20 per cent premium on the market price.

Mr Phillimore said: "We were attracted by the quality of the company's reserves and the exploration potential. You have to factor in some 'blue sky' potential when buying North American gold companies."

Freeport is a pure gold company with interests in two mines in Nevada: Jerritt Canyon (70 per cent owned) and the nearby Big Springs (80 per cent). It is exploring for more reserves, both near its mines and in new areas.

Last year's gold production attributable to Freeport was 344,100 troy ounces, putting it in the second division of North American gold companies. Output this year is forecast to rise to 500,000 ounces.

Cash costs in 1989 were $207 an ounce, in line with the North American average.

Minorco's $3.5bn *bid for Gold Fields* in the UK heralded a new, aggressive, "hands-on" style of management.

It collected $645m from the sale of its 29.9 per cent of Gold Fields to Hanson, the Anglo-American conglomerate, after its own bid was halted by a New York judge.

Mr Phillimore said the company expected the Freeport deal to go through smoothly and with the full approval of the US authorities. "We expect to wrap it up in a month."

Seeking solace in the bottom of a beer glass

A streamlined Elders IXL concentrating on brewing is the likely outcome of a planned restructuring, reports Chris Sherwell

Eighteen years ago John Elliott was an ambitious 30-year-old Australian keen to "go it alone" in business after six years with management consultants McKinsey. This Friday he may announce the "unbundling" of Elders IXL, the corporate empire he forged out of a jam-maker, an agribusiness and *a brewing company*.

No one outside Elders' top management knows for sure what he will say. But in its most dramatic form, the speculation is that the multinational conglomerate will lose its agribusiness, finance, resources and equity investment interests to become a global brewing company, with a reshuffled ownership and perhaps a new name.

Elders is already one of the world's largest brewers, centred on its Fosters brand of lager. Under the restructuring, the group is said to be planning the disposal of its 23.6 per cent stake in Scottish & Newcastle, the UK *brewer; and a deal with Grand* Metropolitan of the UK, under which Elders would acquire some of GrandMet's breweries and the two groups' pub interests would be merged.

Separately, there is talk of floating off Elders' agribusiness to existing Elders shareholders and of the outright sale of the group's 42 per cent stake in Elders Resources NZFP, the forest products and mining affiliate.

The sale of remaining interests in Elders Finance, following the already announced disposals of broking and treasury operations is also expected to continue and some key equity investments may also be sold, for example in the food group Goodman Fielder Wattie.

Harlin Holdings, Elders' biggest shareholder, which is controlled by Mr Elliott and his executives, may reduce its existing 54 per cent stake to below 50 per cent and some of the executives may leave Elders and sell their stakes in Harlin.

Prospective buyers in Harlin are unknown, but they could include GrandMet and Molson, Elders' Canadian brewing partner. The overall result is expected to be a streamlined, three-pronged global brewing empire with interests in Australia, Europe (based in the UK) and *North America (based in Canada)*. Mr Elliott will be a large individual shareholder.

The idea of a restructuring is not new. Back in October 1987, the stock market crash sank a restructuring that involved the creation of three public companies for brewing, agribusiness and finance.

The overriding aim was to ensure the group's future growth through a structure that benefited Mr Elliott and his executives as well as shareholders. The vehicle for the executives was Harlin and the crash, ironically, brought the opportunity Mr Elliott sought.

Elders had built up a large stake in Broken Hill Proprietary (BHP), Australia's largest company, to counter Mr Robert Holmes à Court's attempted takeover through Bell Resources. The crash ended the stalemate and, in February 1988, Harlin acquired the 18 per cent stake in Elders that BHP had built as a cross-holding.

In a second important move later that year, Harlin *quietly* increased its Elders holding to almost 25 per cent by acquiring a chunk of Elders options jointly owned by the Elders Superannuation Fund and Mr Elliott's former *Elders colleagues who formed the* AFP investment group.

This took Mr Elliott and his associates close to their target of direct control. And with the group's defences effectively secured, they continued publicly to conclude deal after deal in a swashbuckling manner.

In brewing alone there was an attempted £1.6bn ($3bn) takeover of Allied Lyons in the UK, the successful £1.2bn acquisition of Courage, subsequent pubs deals and a A$430m (US$320m) takeover of Carling O'Keefe in Canada. This was followed by a link-up with Molson and an abortive £1.6bn onslaught on Scottish & Newcastle.

Similarly, Elders Resources did a reverse takeover of NZ Forest Products in New Zealand; the agribusiness group acquired grain silo interests in the US; and Elders Finance was talking of acquiring a bank.

Through it all, restructuring remained a live issue. In August 1988, one senior Elders executive was quoted as saying that there was "no intrinsic logic" why the group's components should stay together – that the "logical thing at the end of the day is to take the company private and spin off all the divisions."

But the principal trigger for *this Friday's announcement* came last May, when AFP decided to sell to Elders shareholders the 318m Elders shares it held through a just unwound joint venture with Goodman Fielder Wattie.

Because Harlin had underwritten the A$3-per-share, pro-rata offer, Mr Elliott and his associates stood to increase their stake in Elders from 25 per cent to 30 per cent if shareholders took up their entitlements and to 42 per cent if they did not. Including convertible notes and options, the figure went above 50 per cent.

With the market price around *A$2.80 a share, Harlin came* under pressure from the regulatory authorities to give shareholders the opportunity to sell as well as buy at A$3 a share. Mr Elliott reluctantly submitted, turned again to his bankers and launched an on-market bid valuing Elders at A$5.5bn, making it one of the world's largest takeovers.

Even then the offer attracted criticism from Mr Elliott's opponents in the Labor Party government, who disliked his role as president of the Liberal Party.

The offer netted Harlin 54 per cent of Elders and 60 per cent on a diluted basis. But it was more than Mr Elliott wanted and compounded Harlin's financial problems. Harlin's dividends from Elders could not match its repayment obligations – even less so in the environment of high interest rates and negative feelings towards "entrepreneurs" that had engulfed bankers.

The seriousness of Mr Elliott's circumstances was underscored last November when Australian Ratings, the local credit-rating agency, infuriated him by reducing its Elders' rating five notches, because Harlin's buy-out had increased the group's vulnerability.

Elders' published net gearing (debt as a percentage of shareholders' funds) was "a satisfactory 64 per cent," the agency acknowledged, but Elders and Harlin were a single unit and the whole empire's overall debt was A$15.5bn, far higher than previously understood. Harlin's financial structure, it said, was "unsustainable in the medium term."

This week's restructuring plans will be announced alongside interim profits. Analysts say Mr Elliott, as the largest individual shareholder with the most at stake, now wants to make Elders simpler, more predictable and a dependable source of wealth.

He may also decide whether to remain the boss he has always been, or become a non-executive chairman, pursuing his political interests. Analysts suggest that after 18 years the end of Elders' wheeler-dealer phase is nigh.

Astra advances by 23% to SKr1.67bn before tax

By Robert Taylor in Stockholm

ASTRA, the Swedish pharmaceuticals company which is attracting increasing international interest because of prospects for its Losec anti-peptic ulcer drug, increased pre-tax profits (before appropriations and taxes) by 23 per cent last year to SKr1.67bn ($272m) from SKr1.35bn.

Sales rose by 19 per cent to SKr7.48bn from SKr6.28bn. The board proposed a dividend of SKr2.50 a share, the same as for 1988.

Earnings per share after full tax rose by 33 per cent to SKr11 from SKr8.30.

Mr Haken Mogren, president, forecast that sales and pre-tax profits would increase by about 20 per cent this year.

The company's best sales growth performance last year was in agents for gastrointestinal diseases with a 179 per cent improvement to SKr569m from SKr204m.

Astra said Losec, which was introduced into the US, West German, French and Spanish markets in the fourth quarter of last year, is now on sale in 25 countries.

Astra's sales of Losec totalled SKr380m last year and in the three countries where it was first launched – Sweden, Holland and Switzerland – its market share had reached 20 per cent by the end of 1989. Astra is currently embroiled in a learned dispute with Glaxo, producer of the Zantac anti-ulcer drug, over the safety of Losec.

In spite of the strong growth for Losec, Astra's largest sales product continues to be the cardiovascular agent Seloken, which had sales of SKr1.31bn in 1989 compared with SKr1.2bn in the previous year.

There was an 18 per cent growth in Astra's sales of agents for respiratory diseases to SKr1.83bn from SKr1.55bn with a 59 per cent improvement in sales of Pulmicort. The company also reported a 10 per cent increase in its sales of local anaesthetics to SKr1.56bn from SKr1.42bn.

Astra announced that its annual meeting would be held on May 16 in Stockholm.

Degussa and E Merck seek link

By Katharine Campbell in Frankfurt

E. MERCK, the privately-held pharmaceuticals and special chemicals company, and Degussa, the precious metals and chemicals concern, both of West Germany, are considering a merger or other form of co-operation within their pharmaceuticals businesses.

The move reflects the current trend towards consolidation in the fragmented pharmaceutical industry, prompted in particular by heavy research and development costs, which usually run at 10 to 15 per cent of companies' annual sales.

The two companies announced yesterday they were setting up a commission to explore all forms of co-operation, but gave no further details. E. Merck has no connection with Merck of the US, the world's largest drugs company.

Analysts reckoned that, while it was possible that Asta Pharma, the pharmaceuticals subsidiary of Degussa, would be bought by E. Merck, the more likely course of events would be a joint venture, which could seek a stock exchange listing.

A big attraction for E. Merck in a possible tie-up would be the benefits of Degussa's progress in developing cancer therapy drugs, which mesh well with its own cancer research. Degussa, meanwhile, which has some presence in Europe, would benefit from the vastly more extensive worldwide network of E. Merck.

Last year, E. Merck's group sales amounted to DM3.5bn ($2.1bn), a 6.3 per cent increase on the previous year, it was revealed yesterday. Over 40 per cent of this was in pharmaceuticals. Domestic growth was a slower 3.0 per cent, though pharmaceuticals turnover was up 11.7 per cent. Domestic sales were valued at DM1.7bn, and profits at about DM57.3m, 20 per cent up on the previous period.

About 85 per cent of Degussa's profits come from its chemicals business, but pharmaceuticals represent only a small part of the group's activities.

Group sales for the year ended September were DM14.4bn compared with a turnover at the Asta Pharma pharmaceutical subsidiary – announced yesterday – of DM749m.

Analysts said its pharmaceuticals operations were in the current climate probably too small to stand alone, noting also that the Degussa group faced pressure on its margins in precious metals trading.

Separately Merck, the Swiss holding company based in Zug, into which E. Merck's foreign interests are consolidated, yesterday reported group sales of SFr1.95bn ($1.3bn) for 1989, against SFr1.69bn in 1988. Pharmaceutical sales were SFr757m, up from SFr628m a year earlier.

Dasa expects profit in first full year

DEUTSCHE Aerospace (Dasa), the aerospace unit of Daimler-Benz of West Germany, said it expected to make a profit in 1990, its first full year since its 1989 formation, writes Our Financial Staff.

However, Mr Juergen Schrempp, management board chairman, said Dasa also faced restructuring costs – partly because of a decline in military business – which may involve some rationalisation.

Mr Manfred Bischoff, finance director, said Dasa, which includes Messerschmitt-Bölkow-Blohm, would have a 1990 turnover of some DM14.5bn ($8.6bn). Dasa had 1989 turnover of DM8bn, excluding MBB. Its results are being consolidated into the books this year for the first time.

GM holds talks with E German car maker

By Kevin Done, Motor Industry Correspondent

GENERAL MOTORS of the US is holding talks with the East German manufacturer of the Wartburg car about a possible co-operation deal.

The discussions are being conducted by Adam Opel, GM's West German subsidiary and the corner-stone of its European operations.

The Wartburg is assembled in Eisenach by the VEB Automobilwerk Eisenach, part of the East German car-making group based in Karl-Marx-Stadt.

Opel refused to disclose any details of the talks, which it said were at a very preliminary stage. According to West German newspaper reports, Opel is examining potential collaboration both in car assembly and in sales and service operations.

Last month GM, the world's largest car-maker, announced that it was planning to form a joint venture in Hungary to build engines and to assemble cars.

It has signed a protocol with Raba, the Hungarian state-owned maker of trucks, diesel engines, tractors and axles, to form a joint venture in which the US group will own 67 per cent of the equity and will appoint the management. The project will involve a total investment of around $150m.

Bouygues acquires stake in Soviet weekly newspaper

BOUYGUES, the French construction group, has bought a 50 per cent stake in the French-language edition of Moscow News, the pro-reform Soviet weekly, Reuter reports.

Bouygues said Mr Igor Yakovlev, Moscow News's editor-in-chief, signed the agreement at Bouygues's headquarters outside Paris, but it gave no indication of the sum involved.

French reports quoted a company official as saying the acquisition was part of Bouygues' strategy for expansion into the East.

KIO chief bears BP aftershock

Victor Mallet on a London posting hit by Kuwaiti power struggles

KUWAIT's decision to recall Mr Fouad Jaffar, the longstanding general manager of the London-based Kuwait Investment Office, was interpreted by bankers and senior officials yesterday as a delayed aftershock from the two-year-old KIO-BP affair and the ensuing power struggles within the Kuwaiti Government.

No official statement has been made by the Kuwaiti authorities about the decision or about any replacement, but it is known that Mr Jaffar is to return home reluctantly by March 15. Four senior portfolio managers have already been recalled from London.

It appears that Mr Jasem al-Kharafi, the Finance Minister, has decided – with the backing of the Emir – to reassert central control over the KIO. The Kuwait Investment Authority (KIA), a Kuwait-based umbrella organisation headed by Mr al-Kharafi, was established in the 1980s to oversee the KIO but failed to make much impact until this year.

The KIO, which manages up to $50bn of Kuwaiti funds, is supported by the dynamic Sheikh Ali Khalifa al-Sabah, the Oil Minister. He is thought to have backed the KIO's purchase of 21.7 per cent of BP when the British Government decided to privatise its remaining stake in the company in spite of the October 1987 stock market crash.

Sheikh Ali Khalifa al-Sabah: supports KIO

Britain was outraged by the KIO's raid on BP, and although Kuwait emerged with a profit from last year's BP share buy-back, which cut the KIO's stake to less than 10 per cent, some of Sheikh Ali's relatives in the ruling family were embarrassed by the publicity. Quick decisions are not a hallmark of Kuwaiti politics, and Mr Jaffar's recall is regarded as a belated attempt to rein in the KIO – or to go through the motions of doing so.

A special four-man committee loyal to the Finance Minister was appointed to examine the performance of the KIO. As well as arranging Mr Jaffar's return, the committee has enforced limits on the scale and geographical spread of operations which the KIO can conduct without authorisation from the KIA in Kuwait.

Senior Kuwaitis close to the KIO complained yesterday that the KIA, which has its assets managed by banks and brokerage houses, does not appreciate the professionalism of the KIO, which manages its own affairs, or of Mr Jaffar, who has successfully led the KIO for more than 20 years.

One official described the increased KIA bureaucracy as "detrimental" to the KIO. "The KIO's results are well-known and extremely good," he said. "If the idea was to make us more efficient, then presumably someone would have been appointed as a replacement [for Mr Jaffar]."

The KIA is intensely secretive, and it is difficult to tell at this stage what practical effect the new measures will have. Kuwait as a whole remains a wealthy and aggressive overseas investor – earning about as much from its investment income as it does from oil – and Sheikh Ali continues to pursue his interest in downstream and upstream oil investments through the Kuwait Petroleum Corporation and its subsidiaries.

Some economists believe the KIA is being given more responsibility in North America, and it is certain that the KIA is trying to separate KIA and KIO functions in a more formal way than has been the case so far. Traditionally the KIO has managed most of the estimated KD17bn ($58bn) of funds in the Reserve Fund for Future Generations (which receives a proportion of annual oil revenues) by investing in Western markets and Japan, where it is the largest foreign investor.

The Emir of Kuwait: backs central control of KIO

The KIA has looked after the KD10bn General Reserve (of which about 85 per cent is thought to be in illiquid assets such as loans to Iraq), and has concentrated on investments in the Far East and the Arab world.

Sock Shop seeks protection from creditors

By Maggie Urry in London

SOCK SHOP International, the hosiery chain which was one of the retail stars of the 1980s, yesterday asked the Companies Court to appoint administrators to give the group protection from its creditors.

The company said it needed a breathing space while it organised a refinancing package.

Ms Sophie Mirman, chairman and joint managing director, said if the order was granted at a court hearing today it would be "the best way of ensuring that our refinancing discussions are productive." It would allow the group to continue trading as a going concern.

The petition to the court is an unusual move in the UK but is similar to a Chapter 11 filing in the US. The group has been supported in its petition by Barclays Bank, its bankers. It is thought the bank was keen to see an injection of management. The group has only three directors.

Ms Mirman said rumours that Mr Richard Ross, her husband and the other joint managing director, would have to leave the company were "totally unfounded."

The group has debts totalling £16m ($27m) and less than two weeks ago revealed that losses in the half year to the end of August reached nearly £4m, including trading losses from the US shops which were closed just after Christmas. A material loss is forecast for the year to the end of February.

Analysts suggested yesterday that the company might need to raise as much as £16m in new money to clear the borrowings and give sufficient new equity to cover the losses and write-offs. However, some believe the company could survive with less. In spite of Sock Shop's problems it has received numerous offers of backing.

Yesterday morning the shares, which are quoted on the Unlisted Securities Market, were suspended at 34p, valuing the group at £7.5m. At its peak Sock Shop shares reached 325p making the company worth over £70m. It is thought the shares could return from suspension if and when the administrators are appointed.

Ms Mirman said last night: "I am confident that the Sock Shop concept will survive." It is expected that the 80 per cent stake held by Ms Mirman and her husband will be diluted to well under 50 per cent through the refinancing.

If the court approves the petition, Mr Peter DuBuisson and Mr Phillip Sykes, both partners of BDO Binder Hamlyn, the accountants, will be appointed as administrators.

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INTERNATIONAL COMPANIES AND FINANCE

Nekoosa succumbs to Georgia Pacific bid

By Anatole Kaletsky in New York

GREAT NORTHERN Nekoosa, the big US paper company which had been fighting for its independence in the first big contested takeover battle of the US forest products business, succumbed yesterday to a slightly improved offer from Georgia Pacific.

Nekoosa's merger with Georgia Pacific would create the world's biggest paper and forest products group. Under the deal, Georgia Pacific would pay $63¾ a share in cash for the outstanding shares of Nekoosa, valuing the entire company at about $3.6bn.

Georgia Pacific's clinching offer was a small improvement over the $63 a share bid it had made in mid-November and which had been bitterly resisted by the Nekoosa board.

Georgia Pacific originally bid $58 for Nekoosa a few weeks after October's "mini-crash" on Wall Street. Analysts then suggested the final price for Nekoosa might have to be well over $70 a share.

Given the nervousness in the US stock market and the big falls suffered, particularly by takeover stocks, yesterday's agreement came as a relief to the hard-pressed arbitrageurs on Wall Street. Nekoosa's shares advanced by $1⅝ to $65¾ in heavy trading, while Georgia Pacific fell $¼ to $44⅞, with few shares changing hands.

Some analysts maintained the deal could mark the beginning of a substantial consolidation in the US paper and forest products industry. The expanded Georgia Pacific would have annual sales of about $14.5bn, against International Paper's $12.5bn. It would also become a broad-based producer, since Nekoosa's containerboard and packaging operations would complement Georgia Pacific's building products businesses.

Nekoosa's failure to defend itself against Georgia Pacific, in spite of anti-trust objections and anti-takeover devices, was expected to increase the vulnerability of smaller companies in the industry.

Georgia Pacific will finance the Nekoosa purchase by borrowing $4.5bn from a bank syndicate led by Bank of America.

American Brands offshoot pays £160m for distiller

By Philip Rawstorne

GALLAHER, the British subsidiary of US tobacco group American Brands, yesterday bought Whyte & Mackay, the Scotch whisky distiller, for £160m cash in a surprise late bid.

The purchase, from Brent Walker, the leisure and property group, ended an increasingly bitter five months' auction in which the main contenders had appeared to be a management team led by Mr Michael Lunn, Whyte & Mackay's managing director, and Burn Stewart, a Glasgow-based whisky company.

These two bidders had originally planned a joint venture, but the project collapsed. A row later developed over the support given to Burn Stewart by Charterhouse, the merchant bank, which is owned by the Royal Bank of Scotland, Whyte & Mackay's banker.

Gallaher's unexpected intervention followed an approach by Mr Lunn's group. Mr Anthony Housham, Gallaher's chairman and chief executive, said yesterday: "We were asked if we were interested in a minority stake in the company. After some discussion, we made it clear that we would prefer to own the company but retain the management team. We made our bid on that basis."

Mr Housham confirmed that Mr Lunn would now be appointed chairman and chief executive of Whyte & Mackay. "It was the quality of the management team that persuaded us to buy the company," he said.

The deal comprises all Whyte & Mackay's brands – which include Claymore, Haig, Crawford's and Whyte & Mackay - its Dalmore, Tomintoul and Fettercairn distilleries and its bottling and packaging subsidiary, William Muir.

Whyte & Mackay, which employs some 800 people, has about 15 per cent of the Scotch whisky market and, according to unaudited accounts, in the 15 months ended December 31, 1989 made pre-tax profits of £14m on turnover of £179m.

Mr Lunn said yesterday: "The deal is the best option for the future. Existing management will be allowed to develop the company on an autonomous basis from Glasgow."

Attempts to put together a management consortium had been hampered by a change of attitude in the City towards buy-outs, coupled with increased interest rates, he said.

"There were also threats of hostile takeover bids which we believed would not be in the long-term interests of the company, its employees, or its customers."

Whyte & Mackay brands are already distributed in the US by American Brands, which owns Jim Beam, the world's top-selling bourbon.

This relationship is now likely to be developed and Gallaher is expected to commit substantial funds to Whyte & Mackay's growth.

First Boston denies cutbacks

By Janet Bush in New York

FIRST BOSTON, the US arm of global securities house CS First Boston, yesterday denied it was planning substantial job cuts. It said, however, it was continuing to review its operations in the light of market conditions and it might decide to withdraw from some narrow businesses.

First Boston was beset with rumours throughout last week — which saw Drexel Burnham Lambert file for Chapter 11 bankruptcy protection — that it too was facing liquidity difficulties because of its exposure to the distressed junk bond market.

It strongly denied US press reports sourced to its commercial bankers that First Boston had asked them to release a public statement denying that they had cut off credit to the investment bank. A spokeswoman said yesterday that First Boston was unaware of any such request.

Unlike Drexel Burnham Lambert, First Boston has the advantage of being backed by CS Holdings, a well-capitalised parent.

First Boston said its long-term review of its business could not be characterised as a restructuring and denied reports that it was planning to lay off perhaps 600 to 900 employees. Its payroll is just under 5,000 employees.

Last Friday, CS First Boston announced 29 job losses through the elimination of its bond futures brokerage business in Chicago which, it said, was not profitable enough. It said that it would sell as many as 13 of its 16 seats on the two leading Chicago commodity exchanges.

First Boston recently established a separate merchant banking subsidiary to manage the group's principal investment activities and to monitor the company's exposure to the junk bond market.

It is believed to have substantial holdings of deeply-discounted bonds of Federated Department Stores and Allied Stores which filed for bankruptcy protection in January.

It is also believed to be holding most of the $475m junk bond offering for Ohio Mattress, which collapsed last year, in the form of an illiquid loan to the company.

The bankruptcy filings of Federated and Allied listed First Boston's exposure as $526m. First Boston has said it had already taken some losses into account and its exposure was $298m at most.

Deere's net earnings leap 62%

By Alan Friedman in New York

DEERE & COMPANY, the leading US manufacturer of farm machinery, yesterday announced a 62 per cent jump in its net earnings for the first quarter of its 1990 fiscal year, to $78.5m or $1.04 per share.

The quarter's result, for the period ended January 31, was struck on the back of 20 per cent higher revenues of $1.64bn. The profit is unusually high because the first quarter of the previous fiscal year was hit by manufacturing start-up costs and shipping delays in the combine and tractor business.

Production tonnage in the first quarter was 20 per cent higher than in last year's first quarter and net sales to dealers of farm and industrial equipment were 21 per cent higher at $1.37bn.

Mr Robert Hanson, Deere's chairman, said retail sales of all the company's equipment lines were up in the first quarter, with North American sales of John Deere agricultural equipment especially strong.

He confirmed a forecast that the company's 1990 output was running about 5 per cent higher than last year's production schedules. North American lawn and ground care and agricultural equipment production would see the biggest rise in output, partly to offset lower production outside of the US.

Mr Hanson said North American agricultural economic conditions continue to be favourable, and cited a US Department of Agriculture forecast that farmers' net cash income in 1990 would exceed the 1989 level.

Excluding the company's financial services subsidiaries, Deere's equipment operations had $42.9m of first-quarter net income – up from $14.3m in the same period last year. The credit, insurance and health care operations turned in $34.3m of first-quarter earnings, against $31.1m in the same period of 1989.

For the whole of the last financial year, which ended last October, Deere made a $380.2m net profit on $7.22bn of sales.

Strong growth for Portugal's private banks

By Patrick Blum in Oporto

PORTUGAL'S main private banks experienced another year of strong growth in 1989, benefiting from the high level of economic activity in the country with record investments – foreign and domestic – and from the Government's privatisation programme.

Restructuring in the financial sector and increasing mergers and acquisitions activity also boosted earnings.

Yesterday, the Banco Portugues de Investimento (BPI), the leading Portuguese private investment bank, announced a 17 per cent rise in net profits from Es3bn ($20m) in 1988, with cash flow before taxes increasing by about 44 per cent from Es3.2bn in 1988 to Es4.6bn last year.

The bank is raising its dividend from 10 per cent to 12 per cent on an unchanged Es7.5bn share capital.

Earlier, the Banco Comercial Portugues (BCP), one of the *fastest growing private retail* banks, had announced a 49 per cent increase in net profits from Es6.7bn in 1988 to Es10bn last year.

The Limited jumps 27%

By Karen Zagor in New York

THE LIMITED, one of the largest US women's retail chains, yesterday reported strong growth in fourth-quarter earnings as it continued to recover from a decline in the women's apparel market, which sent profits into a tail-spin in the first half of 1988.

The Columbus, Ohio-based company said its net income for the latest 14-week quarter jumped 27 per cent to $153.1m or 85 cents a share, from $120.1m or 67 cents in the 13-week fourth quarter of 1988. Sales increased 17 per cent to $1.58bn from $1.36bn a year ago. *For the whole of 1989, The* Limited said net income leapt 42 per cent to $346.9m or $1.92, from $245.1m or $1.36 a year earlier. Sales in the year rose 14 per cent to $4.65bn from $4.07bn. The 1989 fiscal year was one week longer than 1988.

The company, one of the fastest growing US boutique chains in the first half of the 1980s, said sales in the latest quarter and year advanced by 22 per cent and 19 per cent respectively, excluding the Lerner Woman division from its 1988 results. The company sold Lerner Woman in April 1989.

Abitibi posts loss of C$14.5m

ABITIBI-PRICE, North America's biggest newsprint producer, took the full force of severe price discounting in the fourth quarter of last year and posted a loss of C$14.5m (US$12.1m) or 22 cents a share, on sales of C$801m, writes Robert Gibbens from Montreal.

A year earlier, Abitibi earned C$48.1m or 66 cents, on sales of C$856m. The latest period included a special C$31.2m pre-tax charge to cover a machine shutdown.

For the year, Abitibi reported earnings of C$54.2m or 70 cents a share, against C$191.1m or C$2.64.

INTERNATIONAL COMPANIES AND FINANCE

Westpac buys 7.5% of ANZ Bank

By Chris Sherwell in Sydney

WESTPAC Banking Corporation, the largest of Australia's Big Four commercial banks, yesterday paid Adelaide Steamship A$410m (US$312m) to acquire a 7.5 per cent stake in the Australia and New Zealand Banking Group (ANZ), the third largest bank.

The sale follows Adsteam's recently-announced decision to sell down its investment portfolio in order to concentrate on operating businesses, and allow the conglomerate, headed by the entrepreneurial Mr John Spalvins, to pay off some of its debts.

The deal also highlights growing volatility in the ownership structure of Australia's commercial banking sector, at a time when high interest rates have increased the incidence of non-performing debt and caused the banks unusual stress.

Westpac's purchase is seen as a broadly defensive move in the event of a major reshuffling in the ownership of national or regional banks.

ANZ already holds around 3 per cent of National Australia Bank (NAB), the second largest bank, while NAB has a similar cross-holding in ANZ.

Neither has a stake in Westpac, but Adsteam still has significant holdings in both Westpac and NAB. Westpac and ANZ, meanwhile, both have stakes of around 10 per cent in each of two smaller regional banks, Advance Bank in New South Wales and Challenge Bank in Western Australia.

Broking analysts are predicting a shake-out in the sector in the coming months, following the federal election on March 24. This is reinforced by uncertainty surrounding the government-owned banks, notably the federal government's Commonwealth Bank, the number four bank, and the state-owned State Bank of Victoria and the State Bank of New South Wales.

Speculation last year that the Commonwealth Bank might merge with one of the other three major banks has subsided because of Labor Party objections.

Mr John Spalvins: leading Adsteam's efforts to pay debts

Concern has grown, however, about the future of the State Bank of Victoria because of the poor performance of Tricontinental, its merchant banking arm, now absorbed by the parent.

After provisions last year of some A$500m and a substantial A$200m overall loss, the bank is said by broking analysts to be facing further provisions in the current year of up to A$700m.

The State Bank of New South Wales has acknowledged holding talks with its Victorian counterpart about a possible merger to help replenish its capital base, but nothing seems to have come of them.

One suggestion is that the Commonwealth Bank might be interested, but analysts say only the private sector banks have the capital to make such an acquisition.

In their view the government-owned banks, especially the Commonwealth Bank, are already hungry for equity capital, and any resort to local debt markets would be unsatisfactory.

Big loss on currency hits Honda

By Ian Rodger in Tokyo

HONDA Motor, Japan's third largest motor group, saw consolidated net income drop 7.8 per cent in the third quarter to Y22.5bn ($155.6m) or Y23.15 per share, mainly because of a large foreign exchange loss.

Consolidated sales were up 8.5 per cent to Y942.8bn, as car sales in both the US and Japan were helped by the introduction of new models.

Operating income jumped 22.9 per cent to Y55bn, largely because of the weaker yen, cost cutting and the removal of sales incentives following the introduction of the models.

In the third quarter, automobile revenue rose 12.3 per cent to Y701.1bn while motorcycle sales dropped 1.6 per cent to Y69.8bn. Power product sales advanced 15.2 per cent to Y29.9bn.

For the nine months to September 30, net income was down 24.4 per cent to Y55.1bn or Y56.47 per share on sales up 5.8 per cent at Y2,752.6bn.

The group is sticking to its earlier forecast that second-half consolidated net income will be as good as, or slightly better than, last year's Y48.7bn.

● Meiji Seika Kaisha, the Japanese pharmaceuticals and confectionery group, has raised its forecast for parent company net profit in the year ending March 31 1990 to Y7bn from an earlier expected Y5bn, against Y3.06bn a year earlier, Reuter reports.

The increase in the 1989-90 net profit forecast reflected Y4bn earned selling real estate in and near Tokyo, the company said.

The diversified confectionery maker's forecast for the year's sales are unchanged at Y207bn.

● Sintokogio, the world's largest casting-machines maker, is to buy subsidiaries of Cross & Trecker of the US for the equivalent of Y1.3bn, AP-DJ reports.

The Japanese company has acquired Roberts Corp. of Lansing, Michigan, and Shalco Systems Maschinen-und Service in Hamberg, West Germany.

Sintokogio expects combined sales for both the US and West German concerns to reach the equivalent of Y5bn after three years.

AECI's domestic sales slacken

By Jim Jones in Johannesburg

AECI, South Africa's largest diversified chemicals group, lifted profits last year, but the group said domestic sales slowed significantly in the second half.

Export sales were boosted by 36 per cent, but Mr Mike Sander, the managing director, warned that poorer commodity prices at home and abroad would affect trading in 1990.

The group's trading profit before interest and tax in 1989 increased to R604m ($237.5m) from R473m last time and pre-tax profit rose to R495m from R398m. Turnover advanced to R4.76bn from R4.08bn last time.

Apart from some difficult trading conditions, the year was disappointing because the Government declined to provide any financial help or protection for AECI's proposed coal-based synthetic fuels project with Amcoal, the colliery company.

The project is not viable without protection and has been shelved for the present. Mr Sander said AECI was negotiating with the Government to recover the project's development expenses.

Though sales volumes slowed in the second half Mr Sander said the fertiliser, plastics, synthetic fibre and chlor-alkali divisions traded well.

Fertiliser sales have been helped by greater demand from maize farmers and rationalisation of the industry's production.

Earnings rose to 203 cents a share from 165 cents and the year's total dividend has been raised to 87 cents from 75 cents.

AECI is controlled jointly by ICI and Anglo American Corporation, South Africa's largest mining house.

T&N Holdings lifted by merger

By Jim Jones

T&N HOLDINGS, the South African affiliate of T&N of the UK, lifted sales by two thirds in 1989, largely as a result of its merger with Associated Engineering (Asseng), the motor components manufacturer.

Margins came under considerable pressure as demand for motor vehicles and components slackened. The directors warn trading conditions are likely to be even more difficult in 1990.

Trading profit before interest and tax was lifted to R36.8m ($14.5m) from R26.3m, and the pre-tax profit increased to R23.5m from R20.5m.

Turnover rose to R391.4m in the past year from R234.7m earlier, with the consolidation of Asseng contributing R130.1m to the increase.

Earnings dropped to 69.3 cents a share from 87.7 cents and the year's dividend has been dropped to 31 cents from 44 cents.

The directors said Asseng's trading conditions remained firm, though production was limited by capacity constraints at factories. In contrast, the friction materials divisions reported lower profits, as did some of the motor components and parts divisions.

Canadian group in Malaysia venture

SAMAWORLD Malaysia and Canada's Giant Bay Resources are jointly to develop a 1bn ringgit ($370m) resort at Genting Highlands just outside Kuala Lumpur, Reuter reports.

The resort, which will have holiday houses, condominiums, a hotel and a Disney-like theme park, will be located next to Malaysia's only casino operated by Genting.

"Our project will change the world image of Genting Highlands from a gamblers' resort to a place for the family. It will be good for the casino," said Mr K.L. Chan, general manager of SamaWorld Management, the resort project manager.

Giant Bay will undertake the residential, hotel and commercial development of the resort on 182 acres of land bought for 36.2m ringgit from SamaWorld Malaysia. SamaWorld will build the theme park, costing 540m ringgit, on a 96-acre site with Giant Bay as a leading equity partner. SamaWorld and associated companies own the park.

Development of the residential units will cost 188m ringgit, while the cost of the hotel has not been finalised. SamaWorld Management will manage the whole resort.

SE-Banken slips by 4%

SE-BANKEN, one of Sweden's largest commercial banks, said its group operating profit fell by 4.3 per cent in 1989 to SKr4.5bn ($734m) from SKr4.7bn the previous year, AP-DJ reports.

SE-Banken said the figures were only preliminary, as it had not been able to complete its final report due to a wage dispute that kept Swedish banks closed for three weeks.

The bank's 1989 profit was SKr300m below the SKr4.8bn average prediction of analysts. SE-Banken said the decline in profit was mainly a result of substantial increases in funds for credit losses.

Earnings per share were estimated at SKr12 down from SKr12.86. The balance sheet total amounted to SKr350bn at the end of 1989, up SKr20bn from the previous year.

The bank's final report will be presented on March 21.

Jyske Bank achieves 24% return on equity

JYSKE BANK, the Jutland-based bank, made a primary operating profit of DKr827m ($128m), a return on equity of 24 per cent, writes Hilary Barnes in Copenhagen.

After the merger into two mega-groups of the six largest banks, Jyske now ranks fourth with a balance sheet total of DKr60.9bn.

Jyske Bank's net profit was cut from DKr294m to DKr14m after an increase in provisions and depreciation. An unchanged 10 per cent dividend was proposed.

● Bikuben, the savings bank which converted to joint stock status in 1989, made a primary operating profit of DKr789m, a return on equity of 19 per cent.

It will pay a dividend of 7 per cent, its first dividend to shareholders.

CSX to buy rest of rail system

CSX, the US transportation group which has undertaken a large-scale restructuring, is to pay about $385m for the shares in RF&P which it does not already own, Agencies report.

RF&P operates a 113 route-mile rail system between Richmond and the Virginia suburbs of Washington DC.

CSX currently controls, through investments made by its affiliates in the early 1900s, about 36 per cent of outstanding RF&P stock.

RF&P shareholders not affiliated with CSX hold about 11.2m RF&P shares.

CSX said a special committee of the RF&P board of directors had been considering for several years ways in which both rail and real estate operations of RF&P might be combined with those of CSX to maximise values for RF&P shareholders.

The agreement is for each outstanding share of RF&P guaranteed stock, common stock and dividend obligations not owned by CSX affiliates to be converted into either one share of CSX common or the right to receive $34.50 in cash.

Based on current values, the total to be received by non-CSX affiliated RF&P shareholders is about $385m.

RF&P shareholders will be able to choose between either CSX common stock or cash.

INTERNATIONAL CAPITAL MARKETS

Tokyo houses in plan to improve warrant market

By **Stephen Fidler**, Euromarkets Correspondent, in Tokyo

JAPANESE securities houses have come up with proposals which aim to improve the transparency of prices in the Japanese equity warrant market. This is an attempt to stave off moves by the Ministry of Finance to force the listing of the warrants on the Tokyo Stock Exchange (TSE).

The ministry has yet to reply. The houses say their new proposal attempts to meet the objectives that the ministry tried to address in suggesting the listing of warrants, which are long-term options to buy shares in Japanese companies at a pre-determined price.

The ministry's aim is to protect Japanese investors who are the prime buyers of the warrants, to create a more transparent market and to ensure that the prices at which warrants are bought and sold are fair. The Japanese securities houses, concerned that listing would hit their profitable warrant businesses, also say that trading such a volatile, highly-geared commodity on the TSE would be too cumbersome.

London-based securities houses are also worried that a listing requirement would force the new-issue market in equity warrants back to Tokyo. Most have been issued in the Euromarket with low coupon dollar-denominated bonds.

The houses' proposals would introduce brokers to the market to facilitate trading between market-makers, thereby improving market liquidity. Mid-market prices would be available to investors on one of the screen services during TSE hours. Outside these hours, between 11.30am and noon and 4pm and 5pm Tokyo time, prices would also be published on screens.

They would also plan to have a company standing at the centre of the market to which transaction prices would be quickly reported. The firms proposed that the Japan Mutual Securities Company, an inter-dealer broker in the bond market, perform this function.

The proposals, which would cover the entire market of about 800 warrant issues, of which about 300 trade actively, have the backing of some 38 dealers and brokers.

Meanwhile, the warrant market is suffering an unusually quiet period, both in new issues and in the secondary market. The new-issue market in London has been hit as the advantage of issuing bonds in dollars and swapping into yen has declined over simply issuing yen bonds in Tokyo.

But investors have not been buying what they consider a bull market instrument because of the uncertainty in the stock market. Last weekend's elections, expectations of a discount rate rise and worries about developments in the Soviet Union have dominated thinking.

Europe fees top planned US levy

By **Deborah Hargreaves**

A STUDY of European derivatives exchanges has found that most of Europe's markets charge a levy on futures and options trades that is in line with or higher than a proposed US fee. The latter plan caused an outcry among US exchanges when proposed by President George Bush in his budget.

The President proposed that an 11 cents transaction fee should be levied on futures and options trades to pay for an increase in the budget of the industry regulator, the Commodity Futures Trading Commission.

Chicago's world-leading futures exchanges protested that the fee would drive business to competing markets overseas, claiming it could prove "the straw that will break the camel's back in terms of competition with foreign markets."

The study was carried out by Arthur Andersen, the UK tax and accounting firm. It found that:

● In the UK, the London International Financial Futures Exchange (Liffe) levies a fee of 90 pence for a round trip trade in futures and 40 pence for an options trade. These fund the exchange's self-regulatory efforts, with brokers paying separately into the budget of the industry regulator.

● France's Matif charges a levy of FFr6 on most contracts, which goes to fund its share capital.

Brokers there also pay 18.6 per cent value-added-tax on commission earned from financial futures trades.

● The situation is similar in West Germany and Switzerland, where new exchanges are trading just options contracts.

The Swiss exchange, Soffex, finances its regulatory activities and generates its profits by charging fees that range from SFr0.50 to SFr15. And the Deutsche Terminbörse charges DM1 for market-maker transactions and DM7 for other trades.

These fees are likely to rise when futures contracts are introduced in August.

Norwegian bank in second open series issue

By **Karen Fossli** in Oslo

NORGES KOMMUNALBANK, the Norwegian municipalities bank, has launched the second of an open series NKr1bn bond issue, fully guaranteed by the Kingdom of Norway.

The new issue has an annual coupon of 10 per cent and matures on June 30 1993. The outstanding amount, including the new issue, is NKr1.65bn.

The Union Bank of Norway and Christiania Fonds will jointly lead manage an international syndicate comprised of Bayerische Hypotheken, Bayerische Landesbanken and Daiwa Europe as co-lead managers, and Bank of Tokyo, Mitsubishi Finance International, Nikko Securities, Svenska International and Yamaichi International as co-managers.

Foreign investors' interest in the Norwegian bond market has gathered momentum since Norway opened its doors to foreign bond investors last May and because of improvement in Norway's oil-dependent economy.

Mr Stein Bendixen, managing director of Norges Kommunalbank, said yesterday that this year the bank intends to raise some NKr5bn through bond issues, of which some NKr1.5bn has already been raised.

Last year the bank raised NKr2.93bn through bond issues, of which NKr1.68bn was raised before the bond market was opened.

Norges Kommunalbank launched its first NKr1bn bond issue last November. It was the biggest bond issue in Norway outside Treasury bonds issued by the Ministry of Finance.

According to the bank, a large portion of the issue was purchased by international investors.

Boston manager wins custody of two UK funds

By **Andrew Freeman**

STATE STREET Bank, the Boston-based fund management and global custody group, has won two large custody accounts for UK pension funds. Imperial Chemical Industries, the chemicals group, and Pearson, the UK conglomerate which publishes the Financial Times, have hired the bank as global custodian to parts of their pension schemes.

The ICI mandate gives State Street responsibility for two European pension portfolios worth £250m. The funds are managed in-house by ICI, which previously used Bankers Trust as custodian for the assets. A Far Eastern portfolio may be added later.

The Pearson account, thought to be through the group's Millbank Pooled fund subsidiary, is international and includes some UK assets. The account gives State Street responsibility for $750m and includes full accounting and reporting requirements. Pearson uses several external money managers to invest the assets.

The appointments follow a period during which State Street's London-based European operations suffered an apparent loss of direction. Several senior managers have resigned during the last year and the bank has won little new business. Recently Mr Frank Sebasteyn was appointed as managing director in London, moving from State Street's Australian regional office.

Gas distributor signs $350m Euro-credit

PACIFIC Enterprises, a California-based gas distribution and exploration company, has signed a five-year $350m revolving Euro-credit facility arranged by Swiss Bank Corporation, writes Norma Cohen.

The facility, intended to partially replace an existing credit, pays interest at 30 basis points over London interbank offered rates (Libor), carries a commitment fee of 10 basis points and a utilisation fee of 7½ basis points if over half the funds are drawn.

● Britannia Building Society, the UK's ninth largest, is launching a £150m commercial paper programme as part of an effort to diversify its sources of funds.

Britannia's short-term debt is rated P-1 by Moody's Investors' Service, and the society is seeking a short-term rating from Standard & Poor's Corporation as well. Barclays de Zoete Wedd is arranger.

● NCB AB, a Swedish forest industry company which is 50.9 per cent-owned by the Swedish Government, has signed a $150m Euro-commercial paper programme with a multi-currency option. Svenska International is the arranger.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Closing prices on February 20

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Alberta 8⅝ 96	750	96⅝	97	-0⅛	-1⅛	9.28
Alberta 9⅞ 95	600	100¼	100¾	[illegible]	[illegible]	9.18
Austria 9⅝ 93	140	101⅛	102⅜	[illegible]	[illegible]	8.98
B.F.C.E. 8⅜ 94	175	97⅛	97⅝	[illegible]	[illegible]	9.12
B.F.C.E. 9¼ 95	150	100⅛	100½	[illegible]	[illegible]	9.17
Brit. Tel. Fin. 9⅝ 98	250	99⅞	100⅜	[illegible]	[illegible]	9.34
Canada 9 96	1000	100¼	100⅝	[illegible]	[illegible]	8.89
C.C.C.E 9¼ 95	300	100⅛	100⅝	[illegible]	[illegible]	9.15
C.N.C.A 9⅞ 95	150	†99⅞	100⅝	[illegible]	[illegible]	9.30
Credit National 7⅞ 92	100	96⅞	97¼	[illegible]	[illegible]	8.93
Credit National 9½ 92	160	†100⅞	101⅜	[illegible]	[illegible]	9.02
Dai-Ichi Kan 9⅝ 92	150	100⅞	101¼	[illegible]	[illegible]	9.24
Denmark 8¼ 94	150	†96	96½	[illegible]	[illegible]	9.28
E.E.C. 7 91	100	96⅞	97⅛	[illegible]	[illegible]	8.94
E.E.C. 10 93	140	†102¼	102⅝	[illegible]	[illegible]	9.07
E.I.B. 8½ 99	150	—	—	—	—	—
Eurofima 10⅛ 93	100	†102½	102⅞	[illegible]	[illegible]	9.10
Elec. De France 9 98	200	98⅝	99⅛	[illegible]	[illegible]	9.20
Elec. De France 9⅝ 99	200	†100⅝	101⅛	0	-1	9.33
Finland 9 96	250	99	99⅜	[illegible]	[illegible]	9.17
Finn.Exp.Cd. 8⅞ 92	200	98⅝	99⅛	[illegible]	[illegible]	9.11
Finn. Exp. Cd. 9⅜ 95	200	100⅛	100⅝	[illegible]	[illegible]	9.24
Ford Motor Credit 8 91	250	†98⅞	99¼	[illegible]	[illegible]	8.98
Gen.Elec.Cap.Crp.10 1/2 91	300	101⅛	101⅝	[illegible]	[illegible]	9.07
G.M.A.C. 8⅜ 94	500	†96⅝	97	[illegible]	[illegible]	9.61
G.M.A.C. 9 96	300	97⅛	97⅝	[illegible]	[illegible]	9.49
Gen.Mtrs.Corp. 9⅛ 92	200	99⅝	100	[illegible]	[illegible]	9.20
IBM Credit Corp. 8⅝ 92	400	98⅝	99⅛	[illegible]	[illegible]	9.02
IBM Credit Corp. 8⅞ 91	250	99⅜	99⅞	[illegible]	[illegible]	9.07
IBM Credit Corp. 9 92	250	99⅞	100⅜	[illegible]	[illegible]	8.95
IBM Credit Corp. 9⅛ 92	250	100⅝	101⅛	[illegible]	[illegible]	9.00
Italy 8½ 94	1500	97⅛	97⅝	[illegible]	[illegible]	9.16
Italy 9½ 95	1000	101⅛	101⅜	[illegible]	[illegible]	9.13
Italy 9⅝ 99	1000	101⅛	101½	[illegible]	[illegible]	9.39
Itoh C. W/W 4⅝ 94	1000	†109	110½	-0⅛	+0⅛	2.24
Japan Dev. Bank 10 96	200	103⅛	103½	[illegible]	[illegible]	9.24
KFW Intl. Fin. 9 94	300	99⅛	99⅝	[illegible]	[illegible]	9.15
L.T.C.B. of Japan 8⅛ 96	200	—	—	—	—	—
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

DEUTSCHE MARK STRAIGHTS; SWISS FRANC STRAIGHTS; YEN STRAIGHTS; OTHER STRAIGHTS; FLOATING RATE NOTES: [illegible]

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Next Plc 5¾ 03 £	11/87	4.3	95⅛	96⅛	+0⅛	301.82
Nichi Mpp.Bk 2⅞ 03 US	4/88	806	151½	152½	-0½	-2.23
Omnicom Inc 6 1/2% 04 US	10/89	28	182	183	+0⅛	22.13
[illegible] 2⅝ 02 US	[illegible]	1310	258	259	-10	-4.65
Ranks Hovis 4⅝ 03 £	11/88	3.5	118	119	0	0.67
Redland 7¼ 02 £	11/87	5.4	104	105	-0½	2.64
Saatchi&Saatchi 6¾ 03 £	10/89	4.41	—	—	—	—
Silicon Graphics 8 04 US	6/89	23.18	138½	139½	0	-0.49
Sumitomo Bank 3¼ 04 US	2/89	3897.	84½	85⅛	0	11.19
Texas Inst. 2¾ 02 US	9/87	62.87	75⅛	76⅜	+0⅛	92.51
Utd.N'papers 8 04 £	10/89	8.77	121⅛	122⅛	-2⅛	247.90
W.R. Grace 6¾ 02 US	9/87	42.12	90⅛	91⅛	+0⅛	26.95

* No information available-previous day's price

† Only one market maker supplied a price

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (‡three-month; §above mean rate) for US dollars. C.cpn=The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv date=First date of conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

INTERNATIONAL CAPITAL MARKETS

Yields on West German bunds breach 9% level

By Andrew Freeman in London and Karen Zagor in New York

IN WEST Germany yesterday, bund yields breached 9 per cent shortly after trading began, setting the scene for a day of volatility unusual even by recent standards.

By the close, prices had bounced back from their lows,

GOVERNMENT BONDS

but the mood remained nervous.

The bund futures contract continued to make the running, opening 50 pfennigs below Monday's close of 80.80, before crashing to a low of 79.84, at which point a strong technical bounce moved the price up to 81.80.

By the end of trading in London, the price had settled at 80.65. The number of contracts traded pushed well above the 71,500 level.

Prices on the cash market dropped by up to 1½ points early on, before recovering. At the morning fixing, the 7¾ per cent bund maturing in February 2000 was yielding 8.92 per cent, down by around 40 pfennigs in price from the previous day.

Throughout the day there was wild speculation over the possible course of German monetary unification, but analysts said the hectic futures trading appeared to have parted company with economic and political reality.

Reacting to the wild volatility, the London futures exchange doubled trading margins on the bund contract.

■ Other Continental markets experienced smaller fluctuations, with the French and Dutch markets in particular lagging the falls in Germany.

Overall, prices were little changed, but fell away after the close of official trading to end up to ½ point lower.

In the UK, morning activity was driven by the German market, while in the afternoon comments by Federal Reserve chairman Mr Alan Greenspan pushed the market lower on the back of weak US Treasuries.

Domestic money supply and lending figures, although vaguely encouraging according to analysts, failed to make a significant impression.

Traders said volumes on the cash market were low compared with the healthy activity of the futures market.

By late afternoon in London, gilts at the long end had recovered from the day's lows. The benchmark 2003-07 issue was down around ⅜ to yield around 11.27 per cent.

■ US Treasury bonds moved broadly lower yesterday, with a particularly sharp decline at the long end of the yield curve, thanks to strong pressure on US rates to rise from Japan and Germany.

In late trading, the Treasury's benchmark 30-year bond was down 1¼ points at 98¾ to yield 8.65 per cent, its highest yield for 1990. The two-year government bond was down ¼ point, yielding 8.48 per cent.

The Federal Reserve arranged two-day matched sale-purchase agreements when Fed funds, the rate at which banks lend to each other, were changing hands at 8¾ per cent. The draining operation was widely expected, and the Fed is expected to keep the funds rate centred at about 8¼ per cent.

Yesterday the US debt market focused on foreign interest rates. The US bond yield was boosted by sizeable increases in German and Japanese yields in the previous three days.

The impact of foreign interest rates on the US markets was noted by the Federal Reserve which said: "Rising interest rates in Germany likely contributed to an increase in bond yields in the US early in 1990, even as US short-term rates remain essentially unchanged.

"More important, however, for the rise in nominal, and likely real, long-term rates in the US were incoming data pointing away from recession in the economy and from any abatement in price pressures, especially as oil prices move sharply higher."

Bond prices also moved lower on comments by Mr Alan Greenspan, chairman of the Federal Reserve, who said inflation could start accelerating if steps are not taken to push it lower.

Mr Greenspan's comments were seen as an indication that the Federal Reserve has no immediate plans to ease monetary policy.

The US bond market was also nervous about January's consumer price report, due to be released today. Mr Greenspan said he expects the Consumer Price Index to show a sizeable jump in energy and food prices in the wake of December's cold weather.

He added that a reversal "is apparently under way."

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS		10.000	4/93	93.0625	-0.125	12.72	12.25	12.34
		10.500	5/98	93.5625	-0.406	11.64	11.28	11.22
		9.000	10/08	86.2813	-0.313	10.71	10.34	10.22
US TREASURY *		8.500	2/00	99-03	-45/32	8.64	8.29	7.98
		8.500	2/20	98-07	-48/32	8.67	8.49	8.27
JAPAN	No 119	4.800	6/99	87.3854	-0.842	7.05	6.89	6.72
	No 2	5.700	3/07	93.5804	-0.848	6.44	6.26	6.59
GERMANY		7.125	12/99	88.6000	-0.350	8.91	8.51	7.71
FRANCE	BTAN	8.000	10/94	89.4495	0.199	10.86	10.65	10.29
	OAT	8.125	5/99	86.5300	-0.040	10.45	9.98	9.51
CANADA *		9.250	12/99	91.8000	-1.250	10.61	10.18	9.88
NETHERLANDS		7.500	11/99	88.3000	-1.250	9.20	8.88	8.15
AUSTRALIA		12.000	7/99	98.5316	+0.363	13.21	12.96	12.99

London closing, *denotes New York closing. Yields: Local market standard. Prices: US, UK in 32nds, others in decimal.

Technical Data/ATLAS Price Sources

Treacherous conditions keep traders at bay

VOLATILE trading in US and German government bonds kept Eurobonds at bay, with investors and underwriters sidelined by treacherous conditions, writes Norma Cohen.

Aside from a spate of specially tailored Eurobond products, the main new issue of the day was a $250m 10-year Eurobond for the Republic of Ireland, the country's first fixed-rate dollar offering since 1986. The issue, which was lead-managed by Goldman Sachs International, carries a coupon of 9¾ per cent and, in a US-style syndication, was offered at 99.70 per cent with fees to co-leads at 32¾ basis points. The issue was intended to carry a launch spread of 80 basis points over comparable US Treasuries.

INTERNATIONAL BONDS

However, by mid-day, the slide in US Treasury prices forced the lead manager to break the syndicate to allow members to sell bonds at prices in line with the market. Late in the day, the issue was seen trading at 99.15 bid, although co-managers said that Goldman Sachs had been maintaining the 80 basis point launch spread throughout the day. Although Goldman described its issue as having fallen victim to adverse market conditions, some dealers maintained that the issue had been mispriced.

Prices of seasoned Eurodollar bonds closed ⅛ to ¼ lower, with spreads tightening on most issues. However, the spread on the World Bank's latest global bond continued to widen to reach 40 basis points, against its 33.4 basis point launch spread.

West German government bond futures fluctuated wildly in a two-point range, with Eurobonds trading in a narrower range. By the close of trading, Eurobonds had shed about ½ points.

In Switzerland, prices suffered from events in West German markets and the weight of new issues. Prices in the grey market closed about ¼ to ½ lower on the day.

Among new issues, Dresdner International Finance, the Dublin-based offshoot of Dresdner Bank AG, issued its first Swiss franc bond. The five-year SFr200m deal carries a coupon of 7½ per cent and is priced at 101½. However, the deal, deemed tightly priced by traders, was trading outside its fees at less 2⅛ bid.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
Ireland(a)♦	250	9¾	99.70	2000	32¾	Goldman Sachs Int.
SWISS FRANCS						
Dresdner Int.Finance(a)♦	200	7½	101½	2000	2½	Dresdner Bank (Schweiz)
Nat. Nederlanden US(a)★★♦	75	7⅞	101	1997	1¾	UBS
YEN						
Credit Lyonnais(d)♦	10bn	12	101½	1993	[illegible]	Nomura Int.
Postipankki(b)♦	5bn	(b)	99.575	1993	[illegible]	Daiwa Europe
Girozen.Bk. Oest.Spark.(c)♦	8.45bn	8½	101½	1992	[illegible]	Nippon Credit Int.
Girozen.Bk. Oest.Spark.(c)♦	1.7bn	9	101½	1992	[illegible]	Nippon Credit Int.
CCF(c)♦	2bn	9	101½	1993	[illegible]	Morgan Stanley Int.

★★Private placement. ♦Final terms. a) Non-callable. b) First coupon pays ⅛ over 3-month Libor then 6½% thereafter. Redemption linked to Nikkei stock index. c) Redemption linked to Nikkei stock index. d) Redemption oil-linked to Nymex contract.

Michelin to issue notes for $750m

By Andrew Freeman

MICHELIN, the French tyre company, is issuing up to $750m of junior subordinated notes via Compagnie Financière Michelin, in a financing designed to broaden the company's capital base.

The announcement comes at a time when the market for subordinated debt in general has been rocked by the collapse of Drexel Burnham Lambert in the US.

To date, few European corporations have undertaken significant use of subordinated debt and the Drexel affair is widely thought to have set back the chances of such a development as investors seek safer havens for their funds.

The loan, already in syndication via Salomon Brothers and J.P. Morgan, uses a novel structure offering investors high-yielding junior subordinated debt with the characteristics of a variable rate note (VRN). Investors are offered a mezzanine-type instrument, but the underlying credit has very low event risk as the company is family-controlled.

Officials at the two arranging houses reported a good initial response to the 15-year loan which will be privately placed and unlisted.

Finland woos reluctant foreigners

Enrique Tessieri on Helsinki's cautious moves to open its markets

Until recently, Finland was one of the few western industrialised nations which did not make great efforts to attract foreign capital. Now, however, a programme of liberalisation and reform is under way. But the weak economy and the uncertain timetable of reform mean that foreigners are far from rushing to commit their funds.

In 1985 the Bank of Finland banned foreigners from purchasing Finnish markka bonds, though not foreign currency bonds. The main reason for the ban was that small Finnish companies with no international credit ratings – and which the bank feared ran the risk of bankruptcy – were issuing bonds through large national banks.

After a reform effective from February 1 this year, two Finnish bond markets technically exist: one for bonds issued before February 1, from which foreigners are barred; and one for bonds issued after that date, in which they are allowed to invest.

The Finnish Government could now issue a markka bond available to foreign investors, but analysts feel this is unlikely because the Government has a budget surplus.

Inward investment in 1989, which reached FM1.35bn, shows the small amount of foreign investment when compared with FM11.79bn invested by Finnish companies abroad.

The development of Finland's small capital markets has been hindered by other restrictions. A Restricting Act of 1939 forbids foreigners from owning real estate and acquiring a majority stake in Finnish companies – 20 per cent normally and 40 per cent under special permission.

The Act stipulates in which sectors foreigners may not seek ownership. These include forestry, securities trading, transportation, mining, real estate and shipping.

Before last summer, the shares of publicly quoted Finnish insurance companies could be sold freely abroad. However, since foreigners could bypass the Restricting Act by owning real estate and shares in Finnish enterprises through these insurance companies, further legislation in the shape of the Insurance Companies Act was introduced. This stipulated that foreigners could not own more than 40 per cent of a Finnish insurance company's equity and not more than 25 per cent of shares with voting rights.

The Ministry of Finance has set up a committee to abolish some of the antiquated laws in the Restricting Act. However, another of the ministry's committees has recommended that Finland should continue foreign exchange legislation for three years after December 31.

Although Bank of Finland officials are keen to stress that they wish to do away with foreign exchange controls, its critics, such as Mr Juha Järvi, the Helsinki-based executive director of Midland Montagu, the UK investment bank, complain that Finland has not taken adequate steps to define what it wants to liberalise and when.

He explains: "With respect to foreign exchange controls, I believe that Finland is trying to have her cake and eat it. Finland is in a precarious position in this respect: on the one hand it wants to liberalise its capital markets, but on the other it wants to regulate them because of its policy of backing a strong Finnish markka."

Mr Järvi believes there is unlikely to be a flood of investors coming to the Finnish bond market in the near future. He says that the factors which would hinder the rapid development of Finnish capital markets are: the lack of a Finnish markka government bond with a long maturity; no interest rate swap market; and the lack of adequate liquidity.

Analysts believe that the uncertain state of the Finnish economy will also tend to dissuade foreigners from purchasing Finnish bonds. It had a large current account deficit of FM21bn ($5.3bn) and trade deficit of FM5.5bn in 1989, and inflation which peaked at 6.5 per cent during the year. The strong Finnish markka, which was revalued upward by 4.5 per cent in March 1989, and high interest rates of 16 per cent have also knocked foreign investors' confidence.

The only two Finnish borrowers which have been awarded AAA ratings by the credit agencies Moody's Investors Service and Standard & Poor's are the Republic of Finland and one of the country's main banks, the state-owned Postipankki. Finland's two largest banks, Union Bank of Finland and Kansallis-Osake-Pankki, were downgraded this month to Aa1 status because of a surge in their credit write-offs last year. Few Finnish companies have applied for international credit ratings.

The main issuers in the Finnish domestic bond market in 1988 were financial institutions, which accounted for 44 per cent of the total volume. The Government accounted for 33 per cent.

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

Compiled by the Financial Times Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS — Figures in parentheses show number of stocks per section

	Tuesday February 20 1990 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at 25%)	Est. P/E Ratio (Net)	xd adj. 1990 to date	Mon Feb 19 Index No.	Fri Feb 16 Index No.	Thu Feb 15 Index No.	Year ago (approx.) Index No.
1 CAPITAL GOODS (213)	864.71	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2 Building Materials (27)	1035.50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3 Contracting, Construction (37)	1434.68	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
4 Electricals (10)	2426.77	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
5 Electronics (30)	1879.83	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
6 Engineering-Aerospace (6)	417.56	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
7 Engineering-General (44)	468.57	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
8 Metals and Metal Forming (6)	463.71	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
9 Motors (16)	348.74	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
10 Other Industrial Materials (25)	1548.19	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
21 CONSUMER GROUP (177)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
22 Brewers and Distillers (22)	1450.19	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25 Food Manufacturing (19)	1074.26	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
26 Food Retailing (16)	2288.85	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
27 Health and Household (13)	2426.94	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
29 Leisure (33)	1551.92	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
31 Packaging & Paper (13)	567.81	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
32 Publishing & Printing (17)	3443.94	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
34 Stores (31)	782.56	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
35 Textiles (13)	582.52	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
40 OTHER GROUPS (103)	1164.71	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
41 Agencies (17)	1564.09	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
42 Chemicals (22)	1167.18	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
43 Conglomerates (13)	1591.51	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
44 Transport (13)	2257.10	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
45 Telephone Networks (2)	1219.46	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
46 Water (10)	2856.88	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
48 Miscellaneous (26)	1972.67	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
49 INDUSTRIAL GROUP (483)	1134.06	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
51 Oil & Gas (17)	2404.11	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
59 500 SHARE INDEX (500)	1239.27	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
61 FINANCIAL GROUP (114)	819.16	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
62 Banks (9)	866.85	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
65 Insurance (Life) (7)	1358.86	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
66 Insurance (Composite) (7)	691.77	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
67 Insurance (Brokers) (6)	1121.89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
68 Merchant Banks (8)	497.31	-0.5	–	3.58	–	0.04	499.65	501.22	499.91	351.18
69 Property (49)	1149.51	—	7.94	3.78	15.93	1.30	1149.45	1162.34	1158.01	1309.75
70 Other Financial (28)	327.72	-0.7	13.24	6.45	9.97	1.75	330.03	331.57	331.07	306.80
71 Investment Trusts (68)	1194.31	-1.5	–	3.20	–	1.13	1212.30	1220.23	1216.05	1072.92
91 Overseas Traders (5)	1404.57	-0.3	10.83	6.51	10.87	30.79	1408.99	1423.65	1407.78	1409.12
99 ALL-SHARE INDEX (687)	1137.40	-0.8	–	4.58	–	2.04	1147.05	1159.33	1154.36	1060.07

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	Feb 19	Feb 16	Feb 15	Feb 14	Feb 13	Year ago
FT-SE 100 SHARE INDEX♦	2277.0	-20.1	2290.8	2276.4	2297.1	2325.9	2313.0	2290.3	2293.2	2061.0

FIXED INTEREST

PRICE INDICES	Tue Feb 20	Day's change %	Mon Feb 19	xd adj. today	xd adj. 1990 to date
British Government					
1 Up to 5 years	114.21	-0.04	114.26	–	2.02
2 5-15 years	122.12	-0.13	122.28	–	2.18
3 Over 15 years	129.40	-0.14	129.58	–	1.46
4 Irredeemables	147.83	+0.29	147.40	–	0.00
5 All stocks	121.91	-0.09	122.02	–	2.06
Index-Linked					
6 Up to 5 years	139.15	-0.03	139.19	–	0.94
7 Over 5 years	133.21	-0.41	133.76	–	0.81
8 All stocks	133.55	-0.38	134.06	–	0.82
9 Debentures & Loans	101.82	-0.15	101.97	–	1.14
10 Preference	80.04	-0.07	80.10	–	0.86

AVERAGE GROSS REDEMPTION YIELDS		Tue Feb 20	Mon Feb 19	Year ago (approx.)
British Government				
1 Low	5 years	10.97	10.93	8.99
2 Coupons	15 years	10.60	10.62	8.86
3	25 years	10.49	10.52	8.80
4 Medium	5 years	12.19	12.15	10.31
5 Coupons	15 years	11.03	11.01	9.34
6	25 years	10.64	10.64	8.92
7 High	5 years	12.30	12.25	10.42
8 Coupons	15 years	11.24	11.22	9.54
9	25 years	10.78	10.78	9.09
10 Irredeemables		10.51	10.54	8.75
Index-Linked				
11 Inflation rate 5%	Up to 5yrs.	4.66	4.64	3.37
12 Inflation rate 5%	Over 5 yrs.	4.04	4.01	3.50
13 Inflation rate 10%	Up to 5 yrs.	3.67	3.65	2.46
14 Inflation rate 10%	Over 5 yrs.	3.85	3.82	3.32
15 Debs &	5 years	13.42	13.48	11.88
16 Loans	15 years	12.76	12.74	11.29
17	25 years	12.75	12.73	10.70
18 Preference		11.53	11.52	10.04

♦Opening index 2288.2; 10 am 2281.8; 11 am 2288.3; Noon 2285.9; 1 pm 2286.6; 2 pm 2290.8; 3 pm 2287.0; 3.30 pm 2283.6; 4 pm 2281.7 (a) 1.42pm (b) 4.46pm † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL, price 15p, by post 34p.
NAME CHANGE: Ocean Transport & Trading (44) has become Ocean Group.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	15	74	9
Corporations, Dominion and Foreign Bonds	1	8	28
Industrials	144	643	811
Financial and Properties	46	336	314
Oils	13	46	33
Plantations	0	5	5
Mines	44	46	68
Others	27	119	102
Totals	290	1,277	1,370

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Amount Paid up	Latest Renunc. Date	1989/90 High	1989/90 Low	Stock	Closing Price p	+or-	Net Div.	Times Covered	Gross Yield	P/E Ratio
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1989/90 High	1989/90 Low	Stock	Closing Price £	+or-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1989/90 High	1989/90 Low	Stock	Closing Price p	+or-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

TRADITIONAL OPTIONS

● First Dealings Feb 19
● Last Dealings Mar 2
● Last Declarations May 24
● For settlement June 4

For rate indications see end of London Share Service

Calls in Saatchi & Saatchi, Strong & Fisher, STC, Stormgard, Next, Oliver Res., Bestex, Conroy Pet., Aviva Pet., G.M. of Kalgoorlie. Put and call in Marine Developments.

LONDON TRADED OPTIONS

THE MARKET was slightly busier yesterday, though dealers said this was due mainly to the expiry of February stock options today. Aside from the expiry stocks, the main feature was the FT-SE 100 index options, as a 20-point fall in the cash index prompted some investors to hedge.

Total market volume amounted to 27,094 contracts, compared with 25,955 on Monday. Yesterday's total was divided between 13,852 calls and 13,242 puts. Traders continued to complain about the low turnover on the options market. The lack of volume was blamed on the underlying market, where business remained slack.

The FT-SE 100 index options traded 7,212 lots, of which 2,676 were calls and 5,036 were puts. The February 2,300 call series was the busiest, with 841 contracts changing hands. Attention was focused on the futures market, which dipped five footsie points below the cash index at one stage, as Wall Street weakened. The futures market eventually closed at a premium of 2 points, but dealers thought the recovery might be temporary, particularly with world bond markets still fragile.

Two large trades boosted the FT-SE option volume. Barclays de Zoete Wedd sold 700 March contracts, including 250 of the 2,250 puts at 43p, 250 of the 2,150 puts at 18p and 200 of the 2,200 puts at 24p. The trade was based on a view that the stock market would not fall far below current levels. A US house was also said to have sold 500 of the 2,400 calls at 13p.

Among the stock options, British Telecom was the busiest, on widespread buying of February calls by investors short of options but long of stock ahead of the expiry. A total of 2,628 contracts changed hands, of which 2,040 were calls and 588 were puts. The May 330 call series was the busiest, trading 600 lots.

Open interest rose on Monday, as investors left the closing out of expiring February positions until yesterday. The number of contracts outstanding on Monday amounted to 870,396 against 861,884 lots on Friday.

Option		Calls Apr	Calls Jul	Calls Oct	Puts Apr	Puts Jul	Puts Oct
Allied Lyons (*472)	420	68	75	–	3	7	–
	460	36	45	62	11	18	20
	500	13	24	40	32	41	42
ASDA (*108)	100	15	21	26	3½	6	7½
	110	9½	15	18	8	10	12
Brit. Airways (*200)	180	26	30	36	2½	6	8
	200	13	16	24	9	15	16
	220	4½	8	16	22	27	29
Brit Com (*82)	78	7	10	13	12	15	17
	80	3	6	10	20	22	24
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Option		Calls Apr	Calls Jul	Calls Oct	Puts Apr	Puts Jul	Puts Oct
Ultramar (*374)	360	28	45	58	10	13	18
	390	14	30	40	27	28	30

Option		Calls Feb	Calls May	Calls Aug	Puts Feb	Puts May	Puts Aug
Brit. Aero (*510)	500	15	37	55	2	25	33
	550	1	19	35	42	60	65
BAA (*377)	360	19	37	45	1½	10	16
	390	1	20	28	15	24	28
BAT Inds (*809)	800	12	46	77	2	26	34
	850	1	24	54	42	53	58
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Option		Calls Mar	Calls Jun	Calls Sep	Puts Mar	Puts Jun	Puts Sep
Abbey Nat. (*176)	160	21	22	27	2	4	6
	180	5	10	15	11	12½	16
Amstrad (*55)	50	7½	10½	15½	2	5	6½
	60	2½	6½	10	7	10½	12½
Barclays (*555)	550	20	37	48	22	27	33
	600	4	16	29	63	63	63
Blue Circle (*232)	220	17	23	30	3½	10	13
	240	–	12	20	–	22	23
British Gas (*222)	220	10	21	23	4	7	11
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

EURO FT-SE INDEX (*2282)

[illegible]

UK COMPANY NEWS

£25m rights issue for expansion and possible diversification

Cityvision buys rival as profits soar

By Andrew Bolger

CITYVISION, owner of Britain's biggest chain of video film hire stores, yesterday maintained its rapid rate of expansion by announcing the acquisition of another chain of stores, a £25m rights issue and profits more than doubled from last year.

Cityvision is paying £5.4m for the Superflicks chain of 44 stores in the south of England, which it will add to its 569-store Ritz Video Film Hire chain.

At the beginning of the 1989 financial year, Ritz had only 165 outlets.

The one-for-six rights issue at 120p will raise £25.2m. After paying for Superflicks and settling all borrowings, Cityvision expects to have a cash balance of £16m to fund further expansion and possible diversification.

The shares closed at 134p, down 3p.

Cityvision made pre-tax profits of £12.5m in the year to November 30, compared with £5.4m in the previous year. Turnover rose from £14.7m to £45.8m and earnings per share increased by 73 per cent to 7.21p (4.17p).

The dividend rose 50 per cent to 0.75p.

Mr Terry Norris, managing director, said the acquisition of Superflicks would strengthen Cityvision's nationwide chain. It was aiming for 1,500 stores and was opening new outlets at the rate of five to seven every week, not counting acquisitions. Mr David Quayle, chairman, said the year had started well and turnover and profits were ahead of expectations.

The UK video film market was estimated to have been worth £556m in 1989 and future growth was anticipated from more household penetration of video recorders and increased spending on videos as a leisure activity.

He added: "The growth of the video film hire market has been stimulated by the constant flow of new films and the outlook is bright with numerous successful cinema releases due to become available on video in 1990. The board is confident that the Ritz Video Hire Film chain will continue to expand profitably."

Mr Quayle said his board recognised that the rapid rate of growth could not be maintained indefinitely. Accordingly, some of the proceeds of the rights offer would be used to develop new ideas related to the existing business so that the company's growth could be extended.

Analysts say the company has begun selling videos in some stores and is also looking into European expansion.

It may even be considering tie-ups with a fast-food operation – offering a complete service to couch potatoes.

New product lines help Pifco to £1.54m

By Clay Harris, Consumer Industries Editor

A NEW line of "professional-style" hair dryers helped Pifco Holdings, the small domestic appliances group, to increase interim pre-tax profits by 37 per cent to £1.54m.

Pifco, which supplies products under the Carmen and Salton brands as well as its own name, also said sales of fans benefited from the hot summer – a rare case of a company giving credit rather than blame to the weather.

Mr Michael Webber, chairman and chief executive, predicted yesterday that UK retail demand would continue to be flat, but added: "The engine for growth is new products."

"We are sitting at the premium end of the market," he said. "We are not driven by price, we are driven by profit."

The pre-tax advance in the six months to October 31, from the £1.13m previously, came on turnover up by 11 per cent to £12.58m (£11.29m). Earnings per share rose by a third to 12.5p, against 9.4p and the interim dividend is lifted to 3.25p (2.5p).

Alan Harper

Michael Webber: UK retail demand would continue to be flat

Pifco improved its trading margin in the first half, normally the less profitable period, from 8.9 per cent to 9.8 per cent. In 1988-89 overall, the margin was 11.8 per cent.

Investment income leapt to £260,000 (£120,000). Mr Webber said the cash pile signalled that Pifco was not prepared to pay "silly prices" for acquisitions.

With 15 per cent available on the money market, compared with Pifco's target of 25 per cent return on capital, he said: "The 10 per cent marginal for the risk needs to be looked at quite carefully in this climate."

Nevertheless, Pifco was studying possible acquisitions either of complementary products or additional brand names. The Manchester-based company sources its range of personal care, houseware and travel products from a combination of own manufacturing, subcontracting and bought-in lines.

Mr Webber's family owns more than 50 per cent of Pifco's shares.

Swedes take 5% stake in Coloroll

By Andrew Bolger

TWO SWEDISH investment companies yesterday informed Coloroll that they had between them a 5.63 per cent stake in the troubled Manchester-based home furnishings group.

The two companies, Mercurius and Proventus, notified their interest in 10m ordinary shares after the market closed last night. Coloroll shares had closed at 22½p, down 1p.

Coloroll will announce in about two weeks plans for its financial restructuring. It has suffered severely from the impact of higher interest rates on consumer demand for home products, and needs to raise capital to reduce the borrowings built up by its acquisitions in the 1980s and to alleviate its cash-flow problems.

Last month Coloroll was forced to ask its bankers for short-term support to meet the contingent liabilities it incurred through its involvement in the sale of Response, a former subsidiary, as a management buy-out.

Mercurius is part of Mercurius Gruppen, the shipping, offshore energy, commerce and investment banking group headed by Mr Peter Gyllenhammar. This month it raised its stake in Chloride, the battery group, to 6.17 per cent. It also has a significant indirect interest in Gyllenhammer & Partners Overseas, which in turn holds an 18.8 per cent stake in North Sea Assets, the UK quoted investment holding company.

Coloroll said it had no knowledge of those investors and had not been in contact with them.

Owners Abroad at £13.4m but airline collapse hits bottom line

By David Owen

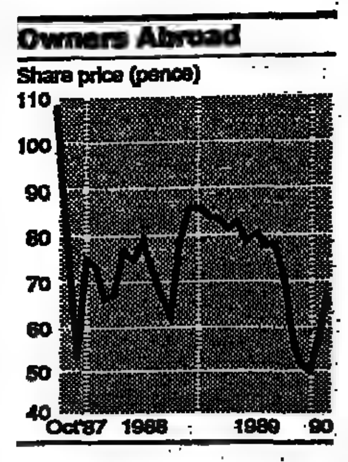
A HEFTY charge relating to the collapse of Paramount Airways removed some of the gloss from an impressive set of preliminary figures unveiled yesterday by Owners Abroad.

For the year to end-October the tour operator and airline seat broker lifted pre-tax profits from £9.65m to £13.44m. However, the £2.8m extraordinary charge had a heavy below-the-line impact, prompting the increase in the final dividend to be limited to 0.05p. The final of 1.8p raises the total to 2.5p (2.35p).

Paramount, which was controlled until recently by former Eagle Trust directors Mr John Ferriday and Mr Richard Smith, was put into administration in August when it was overtaken by a financial crisis. This coincided with the launch of a Serious Fraud Office investigation into a missing £13.7m at Eagle Trust.

Owners – in which Eagle Trust retains a near 15 per cent stake – explained that it and ILG Travel agreed to provide the Paramount administrators with indemnities to support the airline's operation and the costs of the administration until November 27 1989.

It is now anticipated that these amounts will be only partially recoverable. Provision has consequently been made for the irrecoverable balance.



At an operating level, each of the group's divisions performed creditably. Falcon Holidays, the principal brand of the tour operating unit, increased carryings to 871,000 (731,000), giving it a year-end market share of 7.25 per cent. Tjaereborg, the direct-sell holiday operation, was turned around from loss to profit and the wholesale seat chartering division produced an increase in sales from 1.72m to 1.84m return seats.

Air 2000, the group's charter airline, made operating profits of £3.1m – a 38 per cent improvement on the previous year. The unit recently added two further Boeing 757 aircraft to its fleet, bringing the total to nine.

Turnover rose 29 per cent to £319.7m and earnings per share climbed from 7.7p to 8.89p.

The shares fell 1p to 64p.

● COMMENT

The full implications for Owners of the so-called new realism currently pervading the British holiday industry remain uncertain. Low-price capacity has been slashed signifying an end to the recent emphasis on volume at all costs. But it remains to be seen whether this prompts an intensification of competition in the more upmarket niches at which the likes of Owners typically target their products. Still, winter and summer bookings in the group's tour operating unit are ahead of year-earlier levels by 46 per cent and 34 per cent respectively. Improvement is also expected from both Air 2000's expanded fleet and the seat wholesaling division, which recently contracted the whole of next summer's flying programme for Redwing Holidays in a move that will add 650,000 seats to its programme. All told, pre-tax profits of at least £16m look in order for the year ahead. This puts the shares on a distinctly undemanding prospective p/e of little more than 6.

MAM puts trust plan on ice

By Clare Pearson

MERCURY ASSET Management has put plans to launch a new European investment trust on ice in the light of a string of similar products emerging on international markets at present.

Mercury, which is also currently launching a big diversified European fund to be listed in the US, recently decided to defer bringing to the London market a trust focusing on European smaller companies.

Mercury's decision is an indication of emerging concerns about a saturation of the market for these types of issues. A stream of European investment vehicles have appeared in London and elsewhere in the wake of the political changes in the eastern bloc at the end of last year.

Lazard Investors yesterday announced a new central and eastern European fund which, when listed, will mark the seventh issue by a new or existing European fund to be launched in London alone so far this year.

Meanwhile, London-based fund managers are advancing plans for at least two more European funds. Touche Remnant has been sounding out institutions on a possible broadly-based European fund focussing on small and medium-sized companies while MAM expects to announce next week a new generalised European fund.

Mr James Dawnay, a director of MAM, said yesterday: "There was just too much buzz on the radar coming both from ourselves and from others."

But he said that, in addition to worries about issues from other companies, MAM had not wanted to confuse investors with another European trust while the international marketing of its big Europe Fund was underway. The smaller companies trust had been expected to be launched next month.

● The new vehicle being launched by Lazard Investors, the fund management arm of the merchant bank, is the Lazard Central and East European Investments, a closed-end investment company.

Targetted at institutional investors in the Far East and Europe, it is to be denominated in D-Marks. The final size has not yet been set but Lazard expects to raise about DM 125m (£45m) by way of a placing of shares and warrants. The Guernsey-based fund is to be listed in London.

Lazard describes the vehicle as a "stepping stone fund". The initial focus is to be West Germany, Austria and Italy, which it says are likely to be those countries which will be the main beneficiaries of efforts to modernise the economies of eastern Europe and the USSR. The longer term aim is to invest directly or indirectly in the eastern bloc countries.

But the company does not expect to invest more than 30 per cent of its assets in unlisted securities and says it will not participate in start-ups and venture capital.

Batleys poised to go private

By David Owen

Batleys, the Huddersfield-based chain of cash-and-carry wholesalers, is poised to be taken private in a deal which would see public shareholders bought out, by a company controlled by Batley family interests, for £8.84m.

Currently, Batley family interests own or hold beneficially 62.7 per cent of the company. The public stake is 5.2m shares or 36.3 per cent. Mr J Wells, a Batleys director, controls the remaining 1 per cent.

Under the terms of the proposed deal, L Batley Holdings would buy the entire issued ordinary share capital of Batleys at 170p a share. The proposals, which value the company at around £24.4m, are to be implemented via a scheme of arrangement.

The family believes that its requirements and those of the public shareholders are not always consistent. The shares rose 14p to 162p.

Property Company in red

FOR THE six months ended December 31 1989 the Property Company of London incurred a pre-tax loss of £816,000. That compared with profits of £10,000 for the comparable period of the previous year.

However, after taking account of a profit of £2.93m arising from the disposal of nursing homes previously disclosed as extraordinary and now reclassified, pre-tax profits for the 12 months to end-December worked through at £2.15m.

The USM company, with interests in leisure, the environment and care for the aged, has changed its year-end to March 31 and is paying a second interim dividend of 1.5p making 2p to date – for the year to December 31 1988 shareholders received a total payment of 2.75p.

Scottish Eastern's net assets up 11.4%

The Scottish Eastern Investment Trust has proposed a 2-for-1 scrip issue to further increase the attraction of shares to smaller holders.

Net asset value of the shares increased by 11.4 per cent, from 185.8p to 206.9p at the year ended January 31 1990.

Gross revenue rose from £16.33m to £18.31m and after tax of £3.13m (£2.62m), earnings came out at 3.65p (3.15p).

The recommended final dividend of 2.35p makes a total for the year of 3.5p (3p).

Temple Bar lifts nav to 315.53p

Temple Bar Investment Trust had a net asset value per share, with prior charges at nominal value, of 315.53p at end-December 1989 compared with 256.56p a year earlier. The figures with prior charges at market value were 315.54p and 258.37p respectively.

Net revenue improved from £5.5m to £6.85m, after £2.32m tax (£1.92m), for earnings of 11.893p (9.528p) basic and 11.946p (9.854p) adjusted. A final dividend of 6.5p (5.3p) makes a 10.2p (8.5p) total.

VPI warns of further profit slide

VPI, the financial and corporate communications group, warned yesterday that profits would slide further during the first half of the current financial year despite recent cost cutting programmes and management changes.

The shares fell 10p to 28p.

Mr Angus Maitland, the chairman and chief executive, told shareholders at the annual meeting that profits would be "substantially lower" than the second half of last year.

VPI last month announced a fall in pre-tax profits from £14.1m to £6.5m for the year to September 30 as a result in part to a poor performance in the US.

"There has been no improvement in the US conditions," the chairman told shareholders.

Pericom in discussions

By Clare Pearson

Pericom, the USM-quoted computer services group, yesterday said it was in discussions which might or might not lead to an offer being made for the company.

The announcement came in the wake of a sharp rise in Pericom's share price which, after the statement, gained a further 13p to 45p to value the company at £3.4m. Last month, the shares stood at a 12-month low of 24p.

The company said shareholders would be kept informed of any developments.

Pericom's last reported accounts for the six months to end-March 1989 showed pre-tax profits of £125,000, compared with a loss of £828,000 previously. The UK business had at that stage been restructured to diminish the importance of terminal manufacturing and increase facilities for selling new products.

Midlands Radio for SE

MIDLANDS Radio, which claims to have the second largest average number of weekly listening hours in the independent radio sector, is joining the main market via an introduction, writes Clare Pearson.

Midlands, which emerged last June from a merger with Radio Trent, says that in the independent radio sector only Capital Radio commands more listening hours. With revenues of over £10.5m in 1989, it holds four franchises and operates seven radio services transmitted to an area incorporating Birmingham, Coventry and three other big Midlands conurbations.

An aggregate of some 63 per cent of the company's shares is currently held by Crown Communications, the radio and film, video and television production group, Midlands-based JCB Excavators, and Yattendon Investment Trust.

ABI placing to raise £6.6m

By Vanessa Houlder

ABI LEISURE group, a caravan manufacturer, is joining the market in a placing that will raise £6.6m and values the company at £33.2m.

This is nearly double the £17.54m it paid in October 1988, when the company staged a management buy-out from Minstergate. The buy-out stemmed from an informal agreement made in 1985 with Minstergate, which also has property and retail interests, when ABI's present management team were given day-to-day control of the company with the aim of improving performance.

ABI is based in North Humberside and dates back to 1972. In the year to August 31 1989 it had a 24 per cent share of the market for touring caravans and an 11 per cent share of the market for leisure homes, which are permanently sited on a caravan park. The company, which is the largest exporter of caravans from the UK, makes a quarter of its turnover in France and the Benelux countries.

Mr David Eastwood, managing director, said that ABI had not suffered from the pressure on consumer spending and that sales were ahead of last year. He attributed the buoyancy in the caravan market to heavy investment by major leisure companies, and ascribed the health of the leisure home market to more well-off older people.

Pre-tax profits are forecast to be at least £5.9m for the year to August 31 representing a 37 per cent increase on the £4.3m scored in the year to August 1989. The profits show a steady rise from the £378,000 achieved in 1985.

The placing will repay borrowings arising from the buy-out and provide funds for increasing production.

N M Rothschild is placing 10m shares at 125p, which accounts for about 38 per cent of the capital. A total of 4.4m shares are being sold by existing shareholders of which the institutional investors who supported the management buy-out are selling 2.1m.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corresponding dividend	Total for year	Total last year
Campari Intl ....fin	8	Apr 21	6.5	10	8.5
Cityvision § ....fin	0.5	-	0.5*	0.75*	0.5*
NatWest Bank ....fin	11.375	May 4	9.5*	16.7	14.125*
Owners Abroad ....*fin*	1.8	-	1.75	2.5	2.35
Pifco ....int	3.25	Apr 27	2.5*	-	6*
P&P ....fin	2.5	-	2	3.6	3
Prop Co of Ldn § ....int	1.5☆	Apr 30	2.25	-	2.75
Scottish Eastern ....fin	2.35	Apr 30	2	3.5	3
Temple Bar Inv ....fin	6.5	Mar 30	5.3	10.2	8.5

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. §§Unquoted stock. ¶Third market. ☆Second interim, making 2p to date.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- BCE, Havelock Europa, Hamburger Brooks Irish Glass, New Zealand Investment Trust.

Finals- Amcliffe Holdings, Caldwell Investments, EFT, First Tokyo Index Trust, Forwell, Provident Financial, Taveners, Trencherwood, Yorkshire Chemicals.

FUTURE DATES

Interims-

Cornwell Parker	Mar. 12
Evett	Feb. 27
Scholes	Mar. 19

Finals-

Sceptre Fet	Mar. 12
Bowater Industries	Mar. 28
EBC	Mar. 26
Ransomes	Mar. 5
Tootal	Apr. 30
Wates City of London Prop	Mar. 6

UK COMPANY NEWS

P&P advances 47% to £11.1m

By Vanessa Houlder

P&P, the microcomputer services company, yesterday announced a 47 per cent increase in pre-tax profits from £7.51m to £11.1m for the year to November 30. Turnover increased by 55 per cent to £168.9m from £106.52m.

Mr David Southworth, group managing director, said that after a year of substantial expansion and reorganisation the company was securely based for further development.

The gross margin increased from 17.1 per cent to 18.1 per cent, reflecting a change in the business mix towards corporate clients and the increasing contribution from value added services.

However pre-tax margins decreased as a result of higher overheads following the acquisition of Personal Computers. The USM-traded distributor, which was bought in February, had been fully integrated and it retained 80 per cent of its client base.

Following the acquisition of Personal Computers, the contribution of the corporate division, which sells direct to large companies, has risen to 50 per cent of turnover and 70 per cent of gross profit.

The first quarter this year has been very strong, said Mr Southworth. Demand in the corporate marketplace for personal computer products and services continued to be buoyant.

Earnings per share increased by 16 per cent to 20.8p (18p). A final dividend of 2.5p was proposed, resulting in a total of 3.8p (3p), an increase of 20 per cent.

COMMENT

P&P was popping the champagne corks at The Ritz yesterday, as it underlined the differences between it and the rest of the embattled PC distribution sector. Its strategy of reducing dependence on pure distribution, manifested in its acquisition of Personal Computers, appears to have paid off – as does its concentration on margins rather than volumes. The scope for growth is still large: it still has just 4 per cent of the end user market for Compaq or IBM but it is insistent that management of overheads is more important than all-out growth. A similarly measured approach will mark its move on to the Continent, where P&P is looking for alliances as manufacturers try to move their distribution on to a pan European basis. As the company shuffles into position in Europe, the shares, down 1p to 221p, should put in a solid performance. They are on an undemanding p/e of ten, assuming it manages to clear £13m this year.

In Shops defies market trend with £10m placing

By Paul Cheeseright, Property Correspondent

IN SHOPS, the property company which specialises in centres for small retailers, defied prevailing trends on the stock market and yesterday announced a £10m placing and offer to shareholders.

It is issuing 10m new ordinary shares at a price of 100p each. This price was at a discount of 8.25 per cent to the market price just before the announcement.

Albert E Sharp, stockbroker, has placed all the shares conditionally with institutions, but shareholders may buy the new shares at the rate of one for every 2.86 shares already held.

Equity issues have been infrequent on the market as prices in the property sector have slipped relative to the general market. The most recent rights issue, by Rosehaugh, was offered at a very deep discount.

In Shops, which has been expanding rapidly, wants more funds so it has a stronger financial base from which to buy more of the retail property which is coming on to the market.

The issue will widen In Shops' narrow capital base from £6.8m to £16.8m, Mr Tim Brookes, the deputy chairman noted.

Blue Arrow costs coupled with problem country debt hit profits

Provisions leave NatWest £1bn down

By David Barchard

NATIONAL WESTMINSTER, the second largest of the big four UK clearing banks, yesterday announced pre-tax group profits of £404m for the year to December 31 1989, just over £1bn down on its 1988 results.

The fall in profits came after provisions of £990m for problem country debt, up from £49m last year, as well as provisions of £445m for bad commercial debts elsewhere, mostly in the UK and the US.

NatWest has now made total provisions of £1.23bn, equivalent to 75 per cent of its £1.64bn problem country exposure.

There was also an exceptional item of £50m for legal costs and compensation payments arising from County NatWest's handling of the abortive Blue Arrow rights issue in 1987.

Lord Alexander, who became NatWest's group chairman last October, said the results were a good performance in highly competitive and difficult conditions.

Trading profits before all provisions were up by 13 per cent to £1.89bn. Total group assets are now £116.18bn, up from £98.6bn a year ago.

However the contribution to group profits of UK Financial Services slackened last year, falling from £1.10bn in 1988 to £951m.

Retail lending through the UK branch network grew by nearly 20 per cent during the year, but lower margins in the mortgage market cut pre-tax profits at NatWest Home Loans, the group's mortgage lending arm, to £21m from £78m.

Lombard Central, NatWest's finance house subsidiary, contributed profits of £87m, down by 28 per cent on 1988. NatWest Insurance Services made a profit of £44m, up by 26 per cent.

Corporate and institutional banking in the UK and the rest of the world contributed £298m (£257m) before problem-country provisions, while international businesses, mostly retail banking operations in the USA, Europe, and Australia made £161m, up from £119m a year ago.

Investment banking reported a trading profit of £34m before the exceptional items which converted the profit into a loss of £16m (loss: £21m).

Mr Tom Frost, the chief executive, said that the group had achieved its aim of remaining broadly neutral to movements in interest rates. Though the Group interest spread was down from 2.2 per cent a year ago to 1.6 per cent last year, the net interest margin for the group was unchanged at 3.5 per cent.

The net interest margin in the UK was also unchanged at 5.2 per cent.

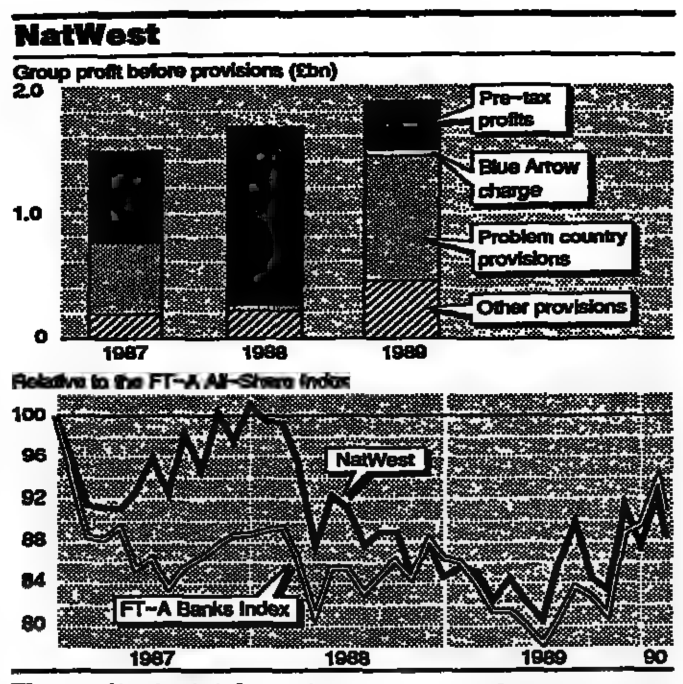
Net interest income for the group rose from £3.12bn in 1988 to £3.50bn. Non-interest income was up from 1.53bn to £1.85bn.

Group operating costs were £3.56m, up 15 per cent on 1988. The cost/income ratio was fractionally higher at 66.6 per cent (66.5 per cent).

Staff numbers in the UK were virtually unchanged. The bank is planning to reduce its UK staff by about 11,000 , but hopes that this will be achieved without redundancies through natural wastage and redeployment.

The key ratios of the bank are slightly weaker than a year ago, though they remain very strong.

Tier 1 capital under the Basle convergence ratios is now 5.3 per cent (5.5 per cent) while the total capital ratio is 9.1 per cent (9.8 per cent).



The equity to total assets ratio has fallen to 5.2 per cent (6.1 per cent).

Lord Alexander said NatWest has no plans for a rights issue.

Earnings per share fell by 76 per cent from 62p a year ago to 15p but the dividend was up by 18 per cent to 16.7p

The London market reacted approvingly to the results, NatWest shares closing at 340p, up by 7p on the day.

David Donne to head Argos

By Maggie Urry

A FEW months ago Mr David Donne bought himself a calculator at an Argos catalogue shop. Little did he realise at the time that he would be invited to chair the retail chain in time for its flotation on the stock market, expected next month.

Argos is being demerged from BAT Industries, the conglomerate, through an issue of free shares to BAT shareholders.

With his new calculator, Mr Donne, whose appointment as non-executive chairman is being announced today, can work out that Argos will have a stock market value larger than such well-known retail names as Dixons, Next, Ratners, WH Smith and Storehouse. Analysts are looking for Argos to be worth around £550m to £600m.

He says that coming to a group which is about to swap one shareholder for 140,000 shareholders is an interesting challenge. He does not expect, as some analysts suggest, that the flotation will be rapidly followed by a bid for the company. "Most takeover victims are performing badly or have their strategy wrong," he says, with the experience of being on one or other side of seven bids. "Argos is not like that," he concludes.

David Donne: will bring a fresh look

Although Argos has a record of impressive growth, which seems to be continuing despite the difficulties in retailing at present, its position as a relatively small part of the vast BAT group has meant that only one of its directors has any experience as a director of a publicly-quoted company.

Mr Mike Smith, Argos' chief executive, although highly regarded for his management of the group, has had little exposure to the City and the financial press.

By contrast, Mr Donne has been chairman of a number of different quoted companies – including Dalgety, the food group – and is currently chairman of Crest Nicholson, the building and property development company, Steetley, the building materials group, and Sphere Investment Trust.

He says that his retail experience is small, although he spent two years as chairman of Asda-MFI and supervised that company's demerger. But he aims to bring to Argos his wider business experience and his knowledge of handling the public side of corporate life.

Mr Donne, who will be joined by two other non-executive directors to make a total board of 10, will bring a fresh look to a group whose current directors have all been there for at least eight years and some for 15 years.

Campari slides to £4.15m

By Ivor Duce

CAMPARI INTERNATIONAL, the designer and distributor of leisurewear and sportswear, yesterday reported a £600,000 decline in pre-tax profits from £4.76m to £4.15m.

Turnover slipped back from £38.1m to £36.96m. The company had predicted in September that the full year results were unlikely to exceed the record profits of the previous year.

Mr Ake Nordin, the chairman, said the results were satisfactory in the light of depressed market conditions.

The order book for 1990 was ahead of last year, but with 50 per cent of its market in the UK, where high interest rates looked likely to continue, he said Campari would do well to mark time in the short term.

An 8p final dividend is proposed, making 10p (8.5p). Earnings per share were down from 42.9p to 31.99p after higher tax of £925,000 (£461,000).

The chairman said the group was ready for the next step in its long-term strategy. That could mean further expansion in Europe.

Sea Containers pays $5m compensation to Genstar

By Andrew Bolger

SEA CONTAINERS, the ferry and container group, has paid $5m (£2.9m) in compensation to Genstar Containers Corporation, the world's largest container rental group, for pulling out of a deal which Sea Containers abandoned to maintain its independence.

The Bermuda-registered Sea Containers has fought off a hostile takeover bid from Stena, the Swedish shipping group, and Tiphook, the UK container rental group – but only by agreeing to a $1.1bn programme of asset disposals put to it by the two predators.

Sea Containers has terminated by mutual consent the agreement to sell to Genstar its standard cargo container and chassis fleets for $392.5m and will instead sell them to Tiphook, subject to shareholders' approval at the annual meeting on March 15. The agreement provided for $5m to be paid to reward Genstar for voluntary termination before the shareholders' meeting.

According to Sea Containers, the $5m compensation was included in the total defence costs figure of $40m to $50m estimated by Mr James Sherwood, Sea Containers' founder and president.

Sea Containers also entered into an agreement with Itel, the Chicago-based marine containers group, to sell its tank container, tank chassis and tank forwarding business to Itel for $109.5m.

The company said it would seek to terminate that agreement before the shareholders' meeting and, if Itel refused, it would be put to shareholders for decision. Tiphook had offered a higher price for those assets, so the board would recommend that shareholders turn down the Itel sale, assuming the matter was not resolved before the meeting.

Itel yesterday declined to comment.

Sea Containers also announced that documents relating to the tender offer for up to 7m common shares in the company at $70m were being posted to shareholders yesterday.

COMMODITIES AND AGRICULTURE

Statfjord crude output is halted

By Karen Fossli in Oslo

ADVERSE weather conditions yesterday forced a virtual halt to crude oil production from the disputed Anglo-Norwegian Statfjord field, which accounts for about 40 per cent of total Norwegian crude oil production.

Four tankers yesterday queued in the field as crews considered whether or not to resume offshore loading of crude oil. Loading was stopped because of winds of up to 101 knots and waves which swelled to about 7m, which 2.5m over the docking limit.

Continuing severe weather could also pose problems at the Gullfaks field, oil from which is also loaded onto tankers rather than piped to shore.

Statoil, the Norwegian state oil company that operates both fields, said that production from the Statfjord C platform, one of three platforms in the field, had been shut in, while production from the A and B platforms was limited to about 70,000 barrels a day.

The Statfjord field has an overall production capacity of about 750,000 b/d, but has been pumping over the last two months a daily average of 600,000 b/d.

Crude oil storage capacity in cells located at the base of the Statfjord platform below the water line was nearly filled to its 4.6m-barrel limit, Statoil confirmed. Storage capacity at the Gullfaks field is limited to three days' production. The field is currently producing on average 250,000 b/d from two platforms, while a third is shut down for annual maintenance.

Unless the weather improves today, crude oil production from the Statfjord field will be totally shut in. Statoil estimated daily production from Statfjord to have a value in excess of NKr100m (£15.5m).

If bad weather continues, Statoil may seek approval from Norwegian authorities to make up lost production in the second half of this year. Because of Norway's self-imposed 5 per cent production restraint policy – designed to help Opec prop up world crude oil prices – oil companies must file production plans biannually for approval by Norwegian authorities.

However, a company official said that earlier high production rates experienced so far this year are likely to offset the current shut in production.

Norway, Western Europe's second largest crude oil producer after the UK, produces on average about 1.8m b/d.

EC farm aid package for Poland

By Bridget Bloom

THE FIRST European Community aid package to be aimed directly at Poland's private farmers is expected to be given the go-ahead by the Commission in Brussels this week.

The 50m Ecu (£35m) package is designed to supply Polish farms with herbicides, pesticides and fungicides in time for the spring planting season for potatoes, sugar beet, cereals and rape seed.

It is understood that about 20 EC-based companies will be involved in supplying the plant protection chemicals, with contracts likely to be awarded to BASF, Monsanto, ICI, Shell, and Montedison, among others. The companies may also provide technical assistance.

The chemicals will be paid for by the EC, distributed within Poland by the US-financed Foundation for the Development of Polish Agriculture, and sold to Polish farmers, with the proceeds going to a rolling counterpart fund which will be used to purchase further inputs from the EC.

Though state farms will also benefit, the EC, with support from the Polish Government, hopes its aid will help improve efficiency among private farmers, who account for some 80 per cent of output.

Mexican Government unloads a silver antique

Richard Johns on the privatisation of a colourful but generally unprofitable mining operation

THE MEXICAN Government is about to dispose of Compania Real del Monte y Pachuca, the ancient silver mining enterprise put up for privatisation last August. An unprofitable operation, it could hardly be called the "family silver" – but it must be regarded as something of a national heirloom.

It is understood that the bid by the Grupo Autrey – a consortium made up of businessmen from Monterrey, Guadalajara and Tijuana associated with the brokerage firm Casa de Bolsa Mexico – has been accepted by Banca Cremi, the selling agent chosen by the Ministry of Finance.

They will certainly be acquiring a splendid and romantic but, recently, very unprofitable antique which five years ago was still using steam to operate its hoists and even today uses mesh steel bands, which generally went out of use a century ago, rather than cables to lift them.

Arguably, the mines of Real de Monte y Pachuca embraced in an area of 580 sq km are the most venerable in the world, apart from those of King Solomon – wherever those might be.

It has been conservatively estimated that over nearly 460 years of continuous operation the complex, a veritable labyrinth of about 2,000km of tunnels, has produced 1.3bn ounces of silver and 6.6m ounces of gold, worth in total over $9bn at 1989 prices.

It is almost certain that the outcrops of silver were worked by Aztecs and that some of Montezuma's treasure looted after by Hernan Cortes came from the veins underneath two adjoining mountains. In 1536 some two dozen Conquistadores, led by one Luis Telles, arrived at the Pachuca range. By the early 1540s ore was being extracted by what was then a revolutionary method brought to New Spain by Bartolome Medina.

Over the centuries the mines around Pachuca – the last of a dozen or so operating in the district in the 1890s – have had varying fortunes, including what is believed to have been the first strike in the Americas in 1755.

In the archives of Real del Monte y Pachuca visitors can browse through records showing accounts kept in English from 1824 to 1847 when it was owned under a lease agreement and operated by a British enterprise, the Gentlemen Adventurers in the Mines of Real del Monte. During that period, no less than £15,381,633 – a very substantial sum for the era – was invested, although cumulative proceeds from output totalled only £10,930,475.

The Gentlemen Adventurers were bought out by two Mexican investors, who continued to use British, mainly Cornish and to a less extent Scottish, managers, engineers and artisans as well as pumps and equipment.

Shaded by a copse of tall trees, the Protestant cemetery at Real del Monte testifies to the long British presence; as do Cornish names in the telephone directory. And an enduring legacy has been the "peste," or Cornish pasty – the genuine article, albeit usually spiced with chiles and sometimes enriched with *mole* (bitter chocolate sauce) – which is very much a part of the staple diet of Pachuca, capital of Hidalgo State.

What was then called Aviadora de Minas del Mineral del Monte and Pachuca (the company took on its present name in 1920) was purchased in 1906 by the now defunct United States Smelting, Refining and Mining, which introduced the cyanide process to its mills. Peak production was reached in the 1930s but, having largely exhausted the richest, thickest seams, the US concern sold out to the Government for $3.5m in 1947.

In that year nearly 350 grams of silver and 2.3 grams of gold were extracted from each tonne of ore. Yields last year were down to 287 grams of silver and one gram of gold. The amount of ore treated each month has fallen from an average of more than 90,000 tonnes in the immediate post-nationalisation era to about 40,000 tonnes last year. And the labour force has been halved.

With the plunge in silver prices, the 1984 estimates of proven commercial reserves were reckoned to be 5.9m tonnes in 1984. They were cut to 4.9m tonnes the following year, and are now reckoned to be 4.8m tonnes. Yet additional potential reserves are put at 10m tonnes and the possible life of the complex at another 30 years.

About 500,000 tonnes of ore were treated last year, which would have yielded about 2m ounces of silver and 13,000 ounces of gold giving a gross revenue of rather less than $15m. Yet it is known that the mine has been running at a substantial loss – understood to have been at the rate of $400,000 a month in 1989.

Real del Monte y Pachuca has suffered from lack of investment both on modern equipment and exploration. The biggest problem facing its development has been the high level of the water table at an elevation 2,100m above sea level. Many of the vertical veins continue, unexploited, well below it.

Fulfilment of the potential of the complex would require an investment in pumping of at least $20m, the company has calculated. If half the veins extend 120m below the present water level, about 19m tonnes could be added to the reserves with a value of $600m in gold and silver at current prices – prolonging the life of the operation by another 20 years or so. In addition, there is the need for high-cost exploration drilling to search for undiscovered rich seams which may well exist.

One important asset is the huge quantities of waste tailings accumulated over the centuries which, if treated by modern methods, could yield 47 grams and 0.16 per cent of silver per tonne, as well as zinc and lead.

Parcels of real estate are another, but in this respect the new owners will be confronted by squatters who, under Mexican law, would be very difficult to evict.

Making the old venture profitable again will undoubtedly mean a big and perhaps politically difficult reduction in manpower from the present level of 2,500.

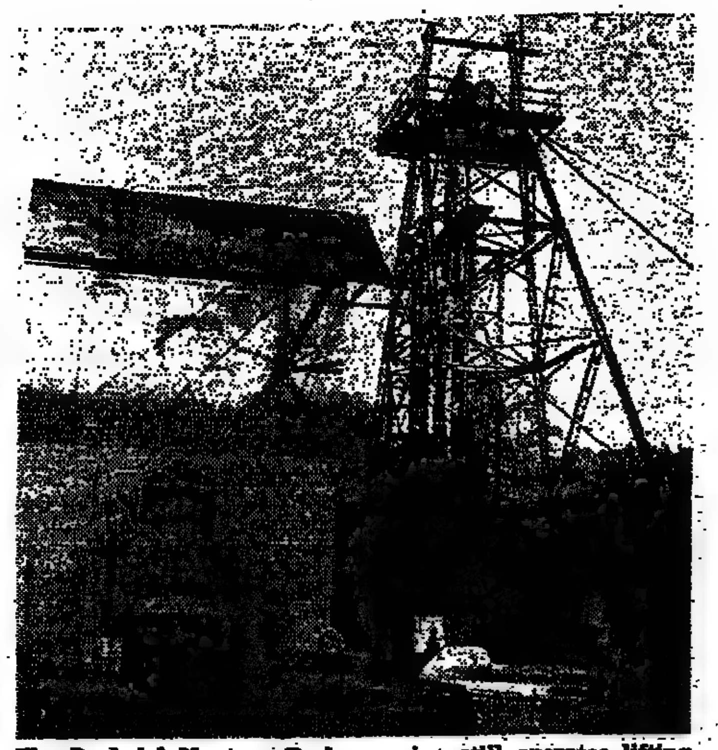
Past losses incurred by the Government, the amount of high-risk capital needed, and the uncertainty over future silver prices are reflected in the selling price. Although the Grupo Autrey is understood to be paying a nominal price of $75m, as a privatisation the sale qualified for a debt-equity swap and, so, with Mexican sovereign debt (USM) currently at about 40 cents to the dollar, the actual cost to the consortium will be around $30m.

The Autrey consortium was one of at least six paying for the bid documents, several of which are said to have had US, Canadian or French foreign partners.

It was widely speculated that Sanluis, one of the "Big Four" Mexican mining companies, would emerge as the new owner because the company was considered to have the best technological capability to make a success out of Real del Monte y Pachuca.

Within the secretive Mexican mining community there has been a debate as to whether the company can be made profitable. Last November a team from Rio Tinto Zinc, which was invited to view the property but was not interested, concluded that it could make money for the "right" owner.

Associated with the Grupo Autrey is a Mr Jorge Ordonez, a leading geologist whose grandfather helped find oil for Wheetman Pearson's Aguilar Petroleum and then, at the last gasp as its exploration budget was running out, Standard Oil of New Jersey. That could be a good omen for the successful bidders.



The Real del Monte y Pachuca mine still operates lifting equipment that went out of general use a century ago

INVESTMENT of $62.1bn in the Mexican mining sector is projected under a plan submitted by Mr Jaime Lomelin, president of the Mexican Chamber of Mines, to President Salinas de Gortari on Monday.

Most of the capital commitment envisaged in the indicative Mining Investment Programme presented by Mr Lomelin, who is also director general of Industrias Penoles, will come from the private sector as the state disengages itself from mining through privatisation sales.

At the same time, Mr Pedro Aspe, Minister of Finance, announced a cut of one quarter in the 7 per cent production tax, or royalty, levied on mineral output. It is to be phased out altogether over the next three years.

Gummer attacks EC rural plan

By Bridget Bloom, Agriculture Correspondent

THE European Community's bid to make the common agricultural policy more responsive to market forces was in danger of being undermined by its emerging plans for rural areas as a whole, Mr John Gummer, UK Minister of Agriculture, said yesterday.

In a hard-hitting speech to open the annual Agra-Europe conference on the outlook for European agriculture, Mr Gummer attacked the Commission's plans as unhelpful.

Proposals included in this year's farm price package, which were designed to implement part of the Commission's 18-month-old document on the future of Rural Society, were aimed at insulating particular groups of producers from market forces, Mr Gummer said.

"I have severe doubts about a policy that, primarily for social reasons, tries to shield a particular group of farmers from the effects of agricultural reform," he said.

It was important to "maintain the fabric of farming in remote and disadvantaged areas" but perfectly satisfactory policies involving subsidies to such regions already existed, Mr Gummer said.

He challenged the Commission's contention that small farmers had been particularly badly hit by the so-called budget stabilisers, the main plank of the EC's farm reforms that have now begun to reduce farm-gate prices.

Mr Gummer accepted that economic forces over the years had tended to make small farms less viable, while rising expectations had made the income they provided less attractive. However, this was essentially a "social issue which should not be addressed by distorting the mechanics of agricultural market support."

The UK minister's attack on the Commission's rural policies underlines continuing differences on the future of the CAP within the EC. These are most pronounced between the UK and Germany.

At yesterday's conference, Mr Georg Gallus, parliamentary state secretary for agriculture, made it clear that Bonn does see the CAP in some senses as a social policy. He stressed that his government was opposed to price cuts "which go beyond the stabiliser programme" because they would burden farmers further without lowering production. Germany would prefer to see an extension of set-aside for arable land or forms of income aid not linked to production, he said.

Referring to the farm price proposals due to be finalised over the next few weeks, Mr Gallus said: "For this reason the federal government cannot accept the present price proposals for 1990-91, even if these will only entail minor additional declines in prices."

Mr Brian Gardner, director of the EC's European Policy Analysis – giving the keynote speech after the last-minute withdrawal of senior EC official Mr Tom O'Dwyer, appointed last week to a director general post in the Commission – outlined four predominant issues for current EC farm policy.

Mr Gardner felt that the preoccupation of the EC with the non-market aspects of farm policy, such as the future of rural society and protection of the environment, would be the single most important issue over the next few years, although the more immediate concerns were with the farm negotiations within the Uruguay Round of the Gatt, and the impact of the single European market.

The issue of monetary reform – in particular the abolition of the special rate of exchange used to convert common farm prices into national currencies – was not the simple conflict "between the Germans and the rest" that was often portrayed, he said.

Indonesian snail menace

INDONESIA, FEARING for its rice crop, has banned the farming of edible snails near rice fields Mr Wardoyo, the Minister of Agriculture announced yesterday, reports Reuter from Jakarta.

Snails, which reproduce at an alarming rate, can chomp their way through whole fields of young rice shoots. In the Philippines, they have damaged 350,000 hectares of the crop.

Mr Wardoyo said Indonesia had not lost any of its staple crop yet, and the ban on snail farming in and around rice fields and their irrigation systems was preemptive.

Once the world's biggest importer of rice, Indonesia has now acheived self-sufficiency, a position it guards jealously.

WEEKLY METALS PRICES

Prices from Metal Bulletin (last week's in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 1,750-1,800 (same).

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 3.90-4.20 (same).

CADMIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, 4.50-4.75 (4.60-4.75).

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse, 7.80-7.95 (7.70-7.85).

MERCURY: European free market, min. 99.99 per cent, $ per 76 lb flask, in warehouse, 225-235 (230-240).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 2.65-2.70 (same).

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 5.50-6.10.

TUNGSTEN ORE: European free market, standard min. 65 per cent, $ per tonne unit (10 kg) WO, cif, 39-57 (40-58).

VANADIUM: European free market, min. 98 per cent, $ a lb VO, cif, 2.40-2.45 (2.30-2.45).

URANIUM: Nuexco exchange value, $ per lb, UO, 9.09 (same).

WORLD COMMODITIES PRICES

LONDON MARKETS

THE LONDON Metal Exchange copper market yesterday resumed last week's uptrend, following Monday's slight setback. The cash price closed at a six-week high of £1,453.50 a tonne, as New York traders, back from Monday's Presidents Day holiday, responded to continued concern about supply tightness. Some London traders remained doubtful that the uptrend was sustainable, however, saying that they wanted to see evidence of supplies being drawn out of LME warehouses to meet the supposed US shortage. Weaker sterling helped the LME copper price and was also a factor in the cash lead price's £12 rise to £466 a tonne. Concern over the recent decline in LME stocks continued to provide a firm background for lead. Gold ended $3 higher at $419.75 a troy ounce after an early rise had run into chart-based resistance.

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$16.60-6.65z	+.025
Brent Blend	$19.60-9.65z	-.085
W.T.I. (1 pm est)	$22.13-2.17z	
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$222-224	-1
Gas Oil	$171-172	
Heavy Fuel Oil	$89-90	
Naphtha	$191-193	
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$419.75	+3.0
Silver (per troy oz)♣	534c	
Platinum (per troy oz)	$525.5	+5.5
Palladium (per troy oz)	$137.25	+0.25
Aluminium (free market)	$1500	-20
Copper (US Producer)	113⅝-19½c	
Lead (US Producer)	41.5c	
Nickel (free market)	340c	-10
Tin (Kuala Lumpur market)	16.91r	+0.54
Tin (New York)	287c	
Zinc (US Prime Western)	65¼c	
Cattle (live weight)†	109.16p	+0.76*
Sheep (dead weight)†	233.10p	+5.42*
Pigs (live weight)†	93.77p	+5.24*
London daily sugar (raw)	$358.6x	+0.6
London daily sugar (white)	$431.5x	+0.5
Tate and Lyle export price	£324.0	-1.0
Barley (English feed)	£111.0w	-1.75
Maize (US No. 3 yellow)	£127.5	
Wheat (US Dark Northern)	£128.5	
Rubber (Mar)♥	54.50p	
Rubber (Apr)♥	55.50p	
Rubber (KL RSS No 1 Mar)	229.5m	+0.5
Coconut oil (Philippines)§	$395.0t	+2.5
Palm Oil (Malaysian)§	$270.0	
Copra (Philippines)§	$225	
Soyabeans (US)	£158	-1
Cotton "A" index	77.95c	
Wooltops (64s Super)	548p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. x-Feb/Mar. t-Mar/Apr. v-Jan/Mar. w-Mar. z-Apr. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

COCOA – London FOX £/tonne

	Close	Previous	High/Low	
Mar	622	624	625	621
May	632	634	636	631
Jul	645	646	649	645
Sep	662	662	665	660
Dec	685	686	689	684
Mar	707	706	710	706
May	722	721	724	721

Turnover: 5250 (2317) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Feb 16 776.63 (773.01) 10 day average for Feb 19 756.85 (754.25)

COFFEE – London FOX £/tonne

	Close	Previous	High/Low	
Mar	607	614	618	606
May	623	624	631	618
Jul	636	637	643	633
Sep	649	651	657	646
Nov	662	663	670	658
Jan	676	678	680	675
Mar	692	695	698	693

Turnover: 4546 (2103) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Feb 16: Comp. daily 67.66 (67.02). 15 day average 64.20 (63.98)

SUGAR – London FOX ($ per tonne)

Raw	Close	Previous	High/Low	
Mar	322.60	321.00	326.80	319.60
May	323.80	326.80	327.60	320.60
Aug	322.80	325.40	327.00	319.60
Oct	313.60	316.60	317.20	312.00
Dec	309.00	314.00	310.00	
Mar	292.00	294.00	295.00	289.60
White	**Close**	**Previous**	**High/Low**	
May	425.0	428.0	428.0	423.0
Aug	423.0	428.0	428.4	422.0
Oct	388.5	394.0	395.4	389.3
Aug	361.0	364.0	365.5	

Turnover: Raw 3070 (589) lots of 50 tonnes. White 858 (555)
Paris- White (FFr per tonne): May 2412, Aug 2425, Oct 2255, Dec 2150, Mar 2125, May 2125.

CRUDE OIL – IPE $/barrel

	Latest	Previous	High/Low	
Apr	19.60	19.63	19.61	19.50
May	19.42		19.40	19.30
Jun	19.28		19.19	
IPE Index	19.67	19.73		

Turnover: 1500 (2284)

GAS OIL – IPE $/tonne

	Latest	Previous	High/Low	
Mar	169.25	168.00	169.50	166.75
Apr	164.75	164.00	164.75	162.75
May	162.00	164.00	162.50	160.50
Jun	162.50	161.75	162.00	160.75
Jul	161.75	165.00	161.75	161.50
Aug	167.00	167.00	162.50	
Sep	172.00		165.00	
Oct	167.50		167.00	

Turnover 3752 (1352)lots of 100 tonnes

JUTE
March/April c and f Dundee BTC $600, BWC $600, BTD $555, BWD $555; c and f Antwerp BTC $580, BWC $550, BTD $535, BWD $530.

COTTON
Liverpool- Spot and shipment sales for the week ended February 16 amounted to 246 tonnes against 603 tonnes in the previous week. Fair operations occured with dealings in west African, Russian and Turkish growths.

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Ring turnover 17,875 tonne
Cash	1498-500	1504-6	1499/1488	1497-8		
3 months	1503-5	1512-5	1448/1393	1504-5	1433-5	38,981 lots
Copper, Grade A (£ per tonne)						Ring turnover 38,525 tonne
Cash	1453-4	1430-1	1460/1445	1449-51		
3 months	1443-4	1420-1	1451/1430	1435-6	1443-5	72,025 lots
Lead (£ per tonne)						Ring turnover 15,775 tonne
Cash	465-7	453-5	471/467	470-1		
3 months	422-3	425-6	434/421	427-8	421-2	10,408 lots
Nickel ($ per tonne)						Ring turnover 1,658 tonne
Cash	7300-25	7480-530	7325/7300	7300-25		
3 months	7270-5	7430-50	7350/7175	7250-75	7350-25	7,070 lots
Tin ($ per tonne)						Ring turnover 600 tonne
Cash	6275-85	6410-30	6290	6290-5		
3 months	6405-10	6540-60	6470/6400	6420-30	6400-5	5,130 lots
Zinc, Special High Grade ($ per tonne)						Ring turnover 16,325 tonne
Cash	1440-5	1425-6	1450	1450-2		
3 months	1420-3	1415-6	1448/1399	1437-9	1422-5	16,045 lots
Zinc ($ per tonne)						Ring turnover 2,000 tonne
Cash	1435-45	1425-35		1440-50		
March 30	1410-20	1400-10		1415-25		739 lots

LME Closing £/$ rate: SPOT: 1.7045 3 months: 1.6770 6 months: 1.6528 9 months: 1.6270

POTATOES – BFE £/tonne

	Close	Previous	High/Low	
Apr	181.7	180.4	182.0	178.5
May	207.0	206.5	208.3	204.0

Turnover 118 (101) lots of 40 tonnes.

SOYABEAN MEAL – BFE £/tonne

	Close	Previous	High/Low	
Apr	128.00	128.50	128.00	
Jun	123.00		123.00	
Aug	123.00		123.00	122.50

Turnover 53 (39) lots of 20 tonnes.

FREIGHT FUTURES – BFE $10/index point

	Close	Previous	High/Low	
Feb	1603		1600	1591
Mar	1643	1627	1645	1627
Apr	1655	1638	1655	1645
Jul	1400	1388	1405	1395
BFI	1582	1576		

Turnover 354 (77)

GRAINS – BFE £/tonne

Wheat	Close	Previous	High/Low	
Mar	111.25	110.50	111.20	110.80
May	114.65	114.25	114.70	114.40
Jun	117.00	116.45	117.10	116.75
Barley	**Close**	**Previous**	**High/Low**	
Mar	104.95	104.75	105.00	104.85
May	107.55	107.30	107.65	107.50
Nov	107.25		107.25	

Turnover: Wheat 340 (380), Barley 104 (81). Turnover lots of 100 tonnes.

PIGS – BFE (Cash Settlement) p/kg

	Close	Previous	High/Low	
Feb	113.0		112.0	
Apr	121.0	118.8	120.0	119.0
Jun	121.0	118.8	120.0	119.0
Aug	117.0	116.0	116.5	116.0
Oct	121.0		120.0	

Turnover 141 (15) lots of 3,250 kg

LONDON BULLION MARKET

Gold (fine oz)	$ price	£ equivalent
Close	419½-420	246-246½
Opening	419¼-419¾	245-245½
Morning fix	419.05	245.101
Afternoon fix	419.85	246.276
Day's high	420½-421	
Day's low	418½-419	
Coins	**$ price**	**£ equivalent**
Mapleleaf	429-434	252-255
Britannia	429-434	252-255
US Eagle	429-434	252-255
Angel	429-434	252-255
Krugerrand	418-422	246-248
New Sov.	97¼-99¼	57-58½
Old Sov.	97¼-99¼	57-58½
Noble Plat	531.80-540.20	311.55-316.45
Silver fix	**p/fine oz**	**US cts equiv**
Spot	535.60	313.40
3 months	548.35	324.80
6 months	557.70	336.85
12 months	580.95	360.70

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Mar	May	Mar	May
1400	109	119	2	15
1500	34	56	27	50
1600	5	21	97	113
Copper (Grade A)	**Calls**		**Puts**	
2350	138	137	7	62
2450	56	88	35	109
2550	17	50	95	171
Coffee	**Mar**	**May**	**Mar**	**May**
550	58	77		5
600	7	40		18
650				45
Cocoa	**Mar**	**May**	**Mar**	**May**
550	71			
600	21	43		12
650		17		36
Brent Crude	**Apr**	**May**	**Apr**	**May**
1900	78	89	19	46
1950	45	60	35	
2000	23			

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Feb	419.9	417.1	420.0	418.0
Mar	420.9	418.1	0	0
Apr	423.8	420.8	424.7	421.3
Jun	429.3	426.3	430.2	417.8
Aug	434.7	431.6	435.0	433.5
Oct	440.0	436.7	0	0
Dec	445.4	441.9	446.5	443.0
Feb	451.1	447.4	451.0	451.0
Apr	456.8	452.6	0	0

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Feb	528.4	519.4	0	0
Apr	534.4	525.4	535.0	527.0
Jul	538.7	530.3	538.5	533.0
Oct	544.2	535.8	543.5	540.5
Jan	549.9	541.5	551.0	551.0
Apr	555.7	547.3	0	0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Feb	533.2	532.8	531.0	531.0
Mar	534.3	534.0	537.0	532.0
Apr	538.6	538.2	0	0
May	542.8	542.4	546.0	540.6
Jul	551.3	550.7	554.0	549.5
Sep	560.1	559.4	563.0	560.0
Dec	572.1	571.2	574.0	569.0
Jan	575.6	574.6	0	0
Mar	584.4	583.3	586.5	584.5
May	592.7	591.5	595.5	593.5

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Feb	114.55	112.85	114.55	114.30
Mar	113.00	111.35	115.10	112.10
Apr	110.25	108.80	110.60	110.50
May	107.30	105.85	109.30	106.80
Jun	105.30	103.85	0	0
Jul	103.60	102.20	105.70	103.50
Aug	102.40	101.25	0	0
Sep	101.20	100.30	102.40	102.00
Oct	100.40	99.70	101.30	101.30
Nov	99.70	99.10	0	0

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Mar	22.17	22.42	22.32	22.05
Apr	22.11	22.25	22.19	21.97
May	21.95	22.04	22.02	21.83
Jun	21.72	21.83	21.78	21.63
Jul	21.43	21.58	21.58	21.40
Aug	21.15	21.36	21.24	21.15
Sep	20.94	21.17	21.04	20.94
Oct	20.84	21.04	20.91	20.85
Nov	20.79	20.97	20.82	20.79
Dec	20.75	20.92	20.82	20.75

INDICES

REUTERS (Base: September 18 1931 = 100)

Feb 20	Feb 19	mnth ago	yr ago
1810.1	1809.9	1796.7	1839.9

DOW JONES (Base: Dec. 31 1974 = 100)

	Feb 16	Feb 15	mnth ago	yr ago
Spot	130.22	130.08	127.21	137.02
Futures	132.30	132.03	129.09	139.04

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Mar	5770	5748	5795	5690
Apr	5700	5681	5725	5615
May	5595	5587	5610	5530
Jun	5495	5502	5530	5455
Aug	5515	5552	5550	5510
Sep	5600	5647	5635	5580
Oct	5665	5712	5705	5665
Nov	5740	5777	5780	5740

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Mar	1015	997	1025	997
May	999	967	1002	988
Jul	1009	993	1010	994
Sep	1021	1010	1020	1012
Dec	1040	1035	1045	1031
Mar	1066	1055	1069	1060
May	1076	1067	0	0
Jul	1096	1088	0	0

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Mar	86.91	85.81	87.75	86.50
May	89.28	88.73	90.20	89.05
Jul	91.02	90.51	91.90	91.00
Sep	92.69	92.17	93.50	92.60
Dec	94.78	93.88	95.75	94.75
Mar	96.63	95.88	97.25	97.25
May	98.25	97.00	99.00	99.00
Jul	99.68	98.43	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Mar	14.49	14.78	14.80	14.44
May	14.57	14.85	14.88	14.47
Jul	14.44	14.68	14.67	14.37
Oct	14.07	14.29	14.28	13.98
Mar	13.38	13.57	13.59	13.29
May	13.27	13.45	0	0
Jul	13.20	13.35	0	0

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Mar	68.63	69.06	68.90	68.50
May	70.19	70.59	70.40	70.00
Jul	70.37	70.91	70.70	70.30
Oct	67.25	67.55	67.25	66.90
Dec	65.87	66.23	66.00	65.60
Mar	66.55	66.90	66.40	66.40
May	67.10	67.50	67.10	67.10

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Mar	200.75	199.65	200.95	199.80
May	196.70	195.10	197.30	195.50
Jul	193.00	191.25	193.50	191.70
Sep	189.00	186.70	189.75	189.50
Nov	183.35	182.60	184.00	183.60
Jan	180.05	179.30	180.50	180.00
Mar	180.05	179.30	180.00	180.00
May	180.05	179.30	0	0
Jul	180.05	179.30	0	0

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Mar	568/2	569/6	570/6	566/0
May	578/0	581/4	582/4	577/4
Jul	589/2	593/4	594/0	589/0
Aug	592/2	596/4	597/4	592/0
Sep	589/4	593/4	596/0	589/4
Nov	593/2	599/2	600/2	593/0
Jan	603/0	608/0	609/4	603/0
Mar	613/4	618/0	618/0	613/4

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Mar	19.81	19.94	20.02	19.82
May	20.20	20.22	20.30	20.12
Jul	20.33	20.34	20.40	20.22
Aug	20.25	20.30	20.35	20.18
Sep	20.20	20.26	20.30	20.10
Oct	19.96	20.05	20.20	19.95
Dec	19.99	20.05	20.20	19.90
Jan	19.92	20.02	20.05	19.90
Mar	20.01	20.10	20.10	20.01

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Mar	165.9	168.2	167.0	165.6
May	169.7	170.1	170.8	169.4
Jul	173.2	174.3	174.6	173.0
Aug	174.6	176.3	176.4	174.6
Sep	176.2	177.5	178.0	176.2
Oct	177.1	178.5	179.0	177.0
Dec	179.9	5181.6	181.5	179.8
Jan	181.0	182.3	182.0	181.0

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Mar	241/4	241/2	241/6	240/4
May	248/2	247/6	248/4	247/2
Jul	252/6	252/2	253/0	251/6
Sep	250/6	250/0	250/6	249/6
Dec	249/0	248/2	249/2	247/4
Mar	255/2	254/4	256/2	253/6

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Mar	382/2	384/0	383/4	381/0
May	360/6	363/0	362/2	359/4
Jul	342/2	344/4	343/2	342/0
Sep	348/4	350/6	349/4	348/2
Dec	360/4	362/4	361/4	360/0
Mar	366/0	369/4	369/0	357/0

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Feb	78.85	79.77	79.65	78.30
Apr	77.12	77.62	77.30	76.65
Jun	71.67	72.65	72.17	71.80
Aug	70.90	71.45	71.20	70.75
Oct	73.10	73.00	73.20	72.40
Dec	73.50	73.45	73.60	72.85

LIVE HOGS 30,000 lb; cents/lbs

	Close	Previous	High/Low	
Feb	49.72	49.52	50.15	49.35
Apr	47.70	47.42	47.80	47.10
Jun	53.17	52.72	53.32	52.40
Jul	53.15	52.52	53.20	52.22
Aug	51.27	50.80	51.37	50.70
Oct	46.47	46.22	46.50	46.00
Dec	47.07	46.92	47.25	46.80

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low	
Feb	51.30	49.85	51.65	49.80
Mar	51.65	50.07	52.02	49.60
May	52.90	51.42	53.40	50.70
Jul	53.40	51.82	53.85	51.25
Aug	51.10	49.77	51.77	49.50
Feb	55.50	54.90	56.50	54.60

LONDON STOCK EXCHANGE

Interest rate fears dictate further fall

There was no respite for a London equity market yesterday still labouring under weak international bond markets and concerned about the possibility of higher interest rates in West Germany and Japan. Added to an overall bearish picture of world markets was a poor early performance by Wall Street after its extended weekend break.

The outcome of a difficult day was a further sharp fall in the FT-SE 100-share index which closed another 20.1 down at 2,277.0 – its lowest level this year – and a two-day decline of 48.8.

While not wholly convinced that the piercing of the 2,300 level on the Footsie index would see the market move sharply lower to a new level of resistance, some analysts became increasingly concerned about its ability to rally from what they regard as a vulnerable position.

Blue chips began the session where they left off on Monday – under pressure – as marketmakers clipped their quotations in an attempt to stave off any selling prompted by the Tokyo market's latest fall. There were also concerns (later proved right) that Wall Street would open sharply lower to catch up with the weakness in international markets on Monday. A rally set in during mid-morning, after better-than-expected results from NatWest, and the Footsie, having been down almost 20 points after an hour's trading, rallied to stand only 6.3 off over the lunchtime period.

But London then resumed its downward path, correctly anticipating the early 30 point decline by Wall Street. Thereafter, it was virtually one-way traffic with the index dropping to 2,276.4 just before the close of business.

Once again the futures market played a big part in determining the course of the cash market. Two waves of selling pressure emanating from the futures undermined sentiment, the first just after Wall Street opened and the second within half an hour of the close. The Footsie futures contract was then showing a five point discount to the underlying index before eventually settling with a two points premium. But dealers were sceptical of any big recovery in the futures.

Commenting on the latest bout of weakness in equities, Mr Paul Walton, equity market strategist at Smith New Court, commented: "The volume figures say it all, we've reacted to Japan and have been anticipating Wall Street; this is a market in which the large players are still sidelined, awaiting a clearer picture." He said the institutions were now buying the "super-quality stocks," adding that the sell-off looked overdone and that the "march of currency union between the two Germanys has slowed."

Turnover yesterday was 377.4m shares, compared with Monday's final figure of 314.3m and Friday's 438.8m.

Account Dealing Dates

*First Dealings:	Option Declarations:	Last Dealings:	Account Day:
Feb 12	Feb 22	Feb 23	Mar 5
Feb 26	Mar 8	Mar 9	Mar 19
Mar 12	Mar 22	Mar 23	Apr 2

*New time dealings may take place from 9.00 am two business days earlier.

NatWest dividend welcomed

NatWest kicked off the banking results season with a higher than expected dividend increase and a confident statement. The shares were the second best performer of the six shares in the FT-SE 100 to show a gain on the day.

Most analysts and marketmakers focused on the 18.2 per cent increase in the dividend. "Absolutely fantastic," said one dealer, who added that the yield was the best in the sector, except for Standard Chartered with a much lower dividend cover. Analysts said the rise in domestic bad debt was not as much as had been feared.

Notes of caution were sounded, however, by Mr John Aitken at County NatWest WoodMac. He argued that there were several not easily repeatable items in the figures, such as a currency gain on overseas assets of £41m. He added that there had been a change in the mix of account holders towards the more expensive products, such as interest-bearing current accounts, and the the scope to continue increasing dividends at a high rate was limited.

NatWest climbed 7 to 340p on turnover of 4.9m and optimism on dividends spilled over into Lloyds, 3 better at 280p on 3.2m and Barclays, up 4 to 555p on 2.9m. Midland, down 3 at 350p, reports tomorrow.

Dutch poser for CU

Commercial Union weakened as several bearish stories circulated. One was extrapolated, said analysts, from a statement by a large Dutch insurance company to the effect that it would reduce its involvement in the local equity market. CU has a big operation in Amsterdam, and the Dutch parliament next month considers a new law which would raise taxes on investment gains.

Researchers added that Axa-Midi, the French insurer which is involved in the Hoylake bid for BAT Industries, said at its annual meeting that if it were unable to take control of BATs' California insurance company Farmers, it would still be looking to the US, rather than the UK, for acquisitions. CU's share price includes a bid premium as a result of pan-European merger activity among composite insurers.

Marketmakers also spoke of switching out of CU into Royal Insurance. The former closed at the day's low, down 14 at 490p, while Royals slipped 4 to 500p. Volume was light in both.

The market slide led to persistent small selling of oil and gas issues which, after showing initial resistance, slipped further during the afternoon. Matters were not helped, dealers said, by the opening fall on Wall Street.

Crude oil prices were little changed, despite news that Norway's Statfjord C oil platform has been shut down because of bad weather, with the possibility that the A & B platforms could also be closed.

BP attracted the biggest turnover, 7.3m, and eased 2½ to 344p. Shell, a poor performer on Monday, dropped 7 more to 474p, on 2.2m, with sentiment dented by reports emerging from the US of a $2.4bn price-fixing lawsuit against six oil companies, including Shell. The suit relates, traders said, to long-running charges that the oil companies conspired to fix prices they paid for crude oil at artificially low prices from 1951 to 1977 and from 1980 to 1985 from the Wilmington oil field in southern California.

Shell reports fourth quarter figures today, with analysts forecasting current cost profits of between £700m and £920m and historic cost profits of £800m to £1bn with the final dividend expected to be in the range of 10.5p to 10.8p net, compared with last time's 9.83p. County NatWest, commenting on the stock ahead of the figures, said "the shares look expensive on fundamentals and we do not believe that the dividend growth outlook warrants a rerating of the stock. We do not expect the results to have much influence on the share price and remain sellers." Other analysts are concerned over the performance of Shell's chemicals business.

British Gas slipped 3¼ more to 222p on turnover of 3.6m amid talk of switching out of the stock and into the oil majors while Burmah dropped 9 to 844p, Calor 5 to 350p and LASMO the same amount to 679p. Enterprise Oil lost 4 more to 541p with specialists convinced that ICI will place its 25 per cent stake in Enterprise "within a month or so."

Much of the stores sector fell with the market. Next was an exception, firming 4 to 107p in heavy trade of 11m shares. Dealers spoke once again of the largely discredited story that Sears might bid and of the more likely one that the company's dividend might be maintained in spite of Next's troubles. However, they said that the buying interest was not coming from income funds but from more speculative sources including specialists in recovery stocks. Similar interest was said to have helped Storehouse and Dixons firm a penny to 118p and 180p respectively against the trend.

A share placing and open offer to raise £9.7m from In Shops left the shares 4 lower at 105p. The placing and offer is on the basis of one new share for every 2.56 held at 100p per share.

More persistent selling pressure in British & Commonwealth pulled the shares back to 62p at one point before they closed at 64p, down 5 on the day.

The property sector was firmer with some analysts commenting that the news of Merivale Moore purchasing £70m of shop properties from Prudential Assurance had helped sentiment. There also talk that a large bid was in the offing, though most dealers thought this unlikely. MEPC added 3 to 501p, while Land Securities was unchanged at 490p, and British Land gained 4 to 363p.

Analysts at Charterhouse Tilney visited Greycoat and retained their high net value asset estimate of 760p per share. "We're not saying things are brilliant. But it's not as bad as the worst fears," said Mr Gareth Evans of Charterhouse. Greycoat ended 3¼ off at 419½p as an overhang of stock continued to weaken the stock.

A recommendation of a switch out of Severn Trent and into South West Water by Kleinwort Benson prompted Severn to weaken. But South West also fell back with the rest of the market. Kleinwort said that South West offered financial stability, an ability to withstand capital overruns, and low exposure to these overruns. South West offered an immediate yield gain to investors over Severn – 6.8 per cent versus 6.66 – but also a potentially better rate of dividend growth of 5.25 per cent against 3.4 per cent.

The Water Package fell 18 to £1715 and Severn Trent lost 1¼ to 157½p. North West dipped a penny to 169p, Thames eased 4¼ to 164p, while South West dipped 7 to 192p, and Southern added 3 at 169p.

A £25.2m rights issue from Cityvision that accompanied a more than doubling of full year profits left the shares 6 down at one point. They recovered by the close to 134p, a net 3 easier. The rights offer is intended to finance further growth and provide the group with a positive net cash position of about £16m after paying off bank borrowings and buying the Superflicks chain of 44 video hire stores.

Campari International slipped 2 to 178p after revealing a 13 per cent decline to £4.1m in full-year profits. Owners Abroad eased a penny after publishing its final profit 39 per cent higher at £13.4m.

Mr Angus Maitland, Chairman and Chief Executive of advertising agency VPI said he expected the company's results in the first half of the current financial year to be substantially lower than the second half of last year. The news left the shares down 10 at 26p.

The sale by Brent Walker (5 lower at 354p) of the Whyte and Mackay whisky operation helped Highland Distillers largely resist the downward trend to close just a penny cheaper at 237p.

An upgrading by Kleinwort Benson helped Tate & Lyle add 3 to 314p on volume of 3.1m. Kleinwort expects Tate to post 1990 profits of £225m against a previous forecast of £220m, while in 1991 it expects £250m against £245m. The resilience of the North American corn sweetener market and tightness in the US sugar market were among the factors causing Kleinwort's reappraisal.

Unilever fell back as the NV's premium over the plc narrowed. "The UK stock has outperformed the Dutch and in technical terms it was time to switch out of the plc and into the NV," said one analyst. Others pointed to the release of Unilever's final results next week as a further reason for the activity. Unilever ended 11 lower at 636p.

Smith also expressed similar concern over Hillsdown, but brisk turnover in the traded options market provided support. Hillsdown was the fourth busiest option, trading 1,029 contracts, equivalent to 1.02m shares. But the options turnover was mainly due to one neutral trade executed by James Capel. Hillsdown was unchanged at 262p.

Coloroll, the troubled home furnishings group, eased a penny to 22½p. After the market close, it was announced that Mercurius Gruppen AB and Proventus AB had taken a joint 5.03 per cent stake in Coloroll.

English China Clays continued to recover on comments that the previous week's weakness, which followed a profits warning from the company, had been overdone. The shares added another 8 to 381p with Schroder Investment Management declaring it now held a 5.01 per cent stake in ECC.

MB Group weakened 4 to 210p on reports that S. G. Warburg had cut profit expectations for this year by £5m to £152m. The cut was blamed on the longer-than-expected period it has taken to increase margins at Metal Box's old packaging interests, and to get working capital in place, and the current mild winter.

US selling was reported of ICI and shares gave up 18 to 1038p in nervous trading awaiting tomorrow's full year figures. Turnover eventually reached 1.2m shares.

Cookson followed the market, the shares giving up 8 to 229p. BZW remain cautious ahead of next month's results and are predicting full year profits of £193m, up from £178m. Explaining BZW's caution, Mr Martin Evans said: "Trading in the second half was similar to the first half with Europe strong, the US mixed but the UK weak."

GKN continued to lose ground, closing 4 down 394p, still influenced by BZW's downgrading; on Monday the securities house cut its profits expectations for 1989. BZW was said to have been the main seller and UBS Phillips & Drew the buyer of a large part of the 1.7m shares traded yesterday.

Major construction stocks bowed to the possibility of cuts in spending on infrastructure. Mr Cecil Parkinson, the Transport Secretary, indicated late Monday that the proposed £13bn road building programme for the next decade would be scaled down because of cost and environmental pressures. Environmentalists had claimed that the size of the programme would increase the danger of global warming.

"The news is not good," said Mr Kevin Cammack of Smith New Court, "but there is a danger of it being overstated. It's more a change of mood, than a change of heart," he continued.

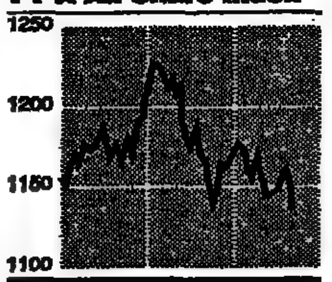
Tarmac bore the brunt of the selling and reacted 10 to 218p on turnover of 2.4m shares while RMC dipped 14 to 600p. Alfred McAlpine lost 13 to 345p.

Redland eased 7 to 545p after the decision to issue more US denominated special preference stock. The group plans to place privately shares worth $100m following the success of the $150m issue completed in December of last year. Meyer International also slipped, closing 4 off at 336p, after BZW lowered its forecast of current year profits from £80m to £75m.

Kitcat & Aitken issued a buy note for Frederick Cooper but the advice went unheeded, the price closing slightly easier at 131p. "The shares look cheap and we believe should be acquired for small company funds," said Kitcat.

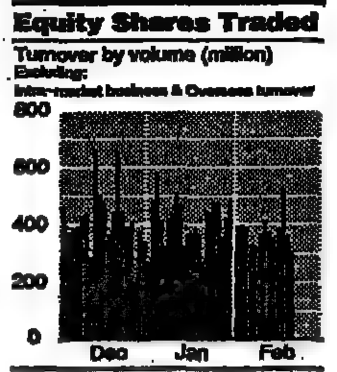
■ Other Market statistics, including the FT-Actuaries share index, London Traded Options, and recent issues (including the water issue stocks) Page 25

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million) Excluding: intra-market business & Overseas turnover



NEW HIGHS AND LOWS FOR 1989/90

LONDON SHARE SERVICE

APPOINTMENTS

J.P. Morgan London post

Mr J. Adam L. Wethered, senior vice president, J.P. MORGAN, has been assigned to London from the New York office. He becomes responsible for financial, personnel, technology, operations, audit, legal and compliance and facilities, as well as securities trust and information services.

■ Mr David Clark has joined the METEL GROUP, Liverpool, as chief executive, responsible for co-ordination and development of all group activities. He was with Marks and Spencer.

■ SPECTRUM GROUP has appointed Mr K.C. Vere Nicoll as a non-executive director. He is a director of Towall, which holds 9.25% of Spectrum's ordinary shares.

■ Mr Kevin Jordan has been appointed chief executive of AARON & PARTNERS, a Chester commercial law firm. He was business support manager for BP Ventures.

■ Mr David Wheeler has been appointed deputy managing director of RECHEM INTERNATIONAL. He will continue as operations director responsible for the Fawley and Pontypool plants.

■ SMITH NEW COURT has appointed the team of Mr Nigel Howard, Mr Simon Wilson and Mr Richard Anthony-Jones to work in the institutional traded options market. They join from Citicorp Scrimgeour Vickers.

■ Mr Stuart A. Morris has been appointed financial director of ROLFE KING GROUP, including subsidiaries Rolfe King, Cable Management Systems, and Cable Management Technology.

■ NATIONAL CAR AUCTIONS, part of the Wincanton Group, has appointed Mr Robert Smyth as finance/commercial director, a new post. He was the group's business consultancy manager.

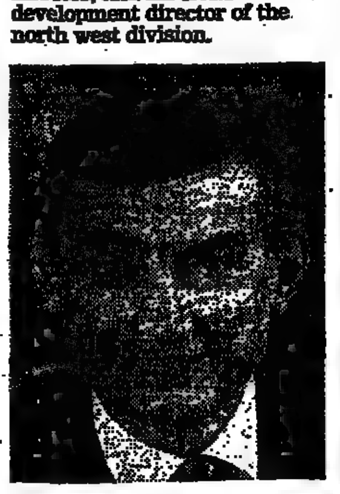
■ Mr Mike C. Charn has been appointed general manager, retail marketing, MOBIL OIL COMPANY, from April 1. He was general manager, commercial marketing, and takes over from Mr Geoff Fisher who is retiring.

■ CHANCERY has appointed Mr Timothy Heaton as intermediary business development executive, corporate finance division. He was a director of RoyTrust Financial Services.

■ Mr F.S.J. Jardine has been appointed group company secretary of BORTHWICKS, succeeding Mr D.A. Fryke who is retiring.

■ Mr Jack Edge has been appointed general manager of ROADLEASE, part of the Plaxton Group. He was national operations director, Lex Vehicle Leasing.

■ Mr Simon Brown has been appointed building director and Mr George Cronin financial director of the North London division of BELLWAY HOMES. Mr Derek Blank has been appointed finance director, and Mr Roland Orrel development director of the north west division.



BET ENVIRONMENTAL SERVICES has appointed Mr John Cropley (above) as chairman of Initial Espana, and Belas Service (Portugal); and to the board of Decrolx in France. He is chairman of Friswit in Belgium, and Hokatex in Holland, and is based at Harefield, Middlesex. All are part of BET Environmental Services, of which Mr Cropley is a director.

■ Mr Leslie O'Malley, Mr Gavin French and Mr William Millar have been appointed to the board of TULLETT & TOKYO EQUITIES.

■ BAIN CLARKSON, part of Inchcape, has appointed Mr Mark E. Wollner as group finance director. He was with TSB.

■ Dr Eric Barkas has been appointed operations director of Oxford Chemicals (Teesside division), a wholly-owned subsidiary of OXFORD CHEMICALS INTERNATIONAL. He was operations director of PROM.

■ FISONS has appointed Mr Robert S. Sales as scientific equipment divisional finance director. He was involved in the US recently setting up Fisons Instruments North America.

■ ROYAL TRUST BANK has appointed Mr Michael Burns as a senior associate director responsible for personnel and administration.

■ Mr Ken Coates, chief executive and group managing director of Meggitt, has been appointed a non-executive director designate of SOUTHERN ELECTRIC.

■ GEORGE BISON BEDE, Tyne and Wear, maker of stairlifts for the disabled, has appointed Mr Michael Holborn as sales director. He was a director of Gimson Stairlifts and Tendercare.

LONDON SHARE SERVICE

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BANKS, HP & LEASING

1989/90 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
*303	216	ANZ SA1	257	-1	44c	1.4	7.7	9.2
191	134	Abbey National 10p	177	-3	L7.7	2.7	5.8	7.2
*282	120½	Allied Irish Ord	244	-6	[illegible]	3.3	3.3	12.6
£131½	£111¼	Algemene Fl.10	£119	-½	Q28%	2.0	7.7	6.5
*85	61	Anglo Irish	85	+3	Q18.7%	2.7	5.2	11.6
81	57	Ansbacher (H.) 1p	74	-1	2.0	–	3.6	–
£72¼	£38¼	Bancaire Cie Fr100	£49½	-1½	[illegible]	–	2.6	–
£46¾	£35¼	Banco Bilbao Viz	£38½	-½	Q35.7%	2.0	3.5	14.1
£33	£25¾	Banco de Santander	£25¾	......	Q25%	2.4	4.1	5.5
*286	169	Bank Ireland Ir£1	255	-6	[illegible]	3.2	4.6	8.7
£19½	£17½	Bank Leumi	£19½	......	–	–	–	–
350	345	Bank Leumi (U.K.)	345	......	†13.5	–	5.2	–
125	88	Bank Scotland	119	-1	†3.8	3.6	4.3	8.6
111¼	95½	Do. 9¼pc Irrd Pf	96	-½	9¼%	–	12.8	–
*67	49	Bank of Wales	52	......	2.8	1.6	7.2	10.9
*588	404	Barclays £1	555	+4	†23.0	3.5	5.5	6.3
31	19	Beachmark 20p	20	......	1.63	1.0	10.8	11.5
363	285	Brown Shipley £1	312	-2	†10.5	–	4.5	–
455	325	Cater Allen £1	415	......	23.5	–	7.6	–
259	157	Chancery	172	......	18.0	2.8	6.2	7.6
£123¼	£14½	Commerzbk DM10	£20¾	[illegible]	Q18%	–	3.2	–
*£29	£22¼	C'hgn.Hbk.Kr100	£24	[illegible]	Q15%	–	6.0	–
£16¾	£10¼	Dai Ichi KBk Y50	£11¼	[illegible]	†Q16%	8.8	0.3	39.7
*£310½	£151¼	Deutsche Bk DM50	£274	-12½	Q24%	–	1.6	–
£22¼	£17½	Espirito Santo	£19¼	-¼	Q75c	3.3	2.4	13.0
260	182	First Nat. Fin. 10p	215	-1	13.0	2.4	8.1	6.6
134	90	FNFC 6.3pc Cv. Pf	111	-2	6.3%	–	7.6	–
£16¾	£13½	Fuji Bank Y50	£14	-¼	Q15.6%	4.2	0.2	–
325	230	Gerrard & National	281	......	18.5	–	8.8	–
154	118	Guinness Mahon 10p	154	......	2.1	–	1.8	–

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS – Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

ELECTRICALS

[illegible]

ELECTRICALS – Contd

[illegible]

ENGINEERING

[illegible]

ENGINEERING – Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INDUSTRIALS (Miscel.) – Contd.

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

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MOTORS, AIRCRAFT TRADES

1989/90 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
£17¾	£10	DAF N.V. Fl1.5	£16	–⅛	HQ2.5	1.8	7.1	7.9
162	113	General Mtrs Units	125	–3	bQ$2.4	–	6.0	–
906	264	Jaguar	849	......	♦11.0	0.5	1.7	–
*61½	27	March Group 5p	41	......	‡gd0.64	–	‡	–
£207	£94½	Volkswagen DM50	£193	–6	Q20%	2.8	1.7	20.6
£51	£33½	Volvo Kr25	£35½	–2	Q56%	3.1	3.8	8.9

Commercial Vehicles

1989/90 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
*505	228	ERF (Hldgs)	236	–1	15.0	3.7	8.7	4.1
*245	166	Plaxton Grp	168	–1	H8.5	2.1	6.7	17.2

Components

1989/90 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
438	375	Abbey Panels	438	......	3.5	10.8	1.1	11.6
290	185	Airflow Streamlines	225	......	6.0	4.2	3.6	9.0
208	143	Bostrom 5p	190	......	5.1	10.6	3.6	9.2
299	203	Dowty 50p	283	–4	16.0	2.3	5.3	10.6
261	176	FR Group	177	–1	5.54	3.7	4.2	8.7

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

PROPERTY—Contd

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRANSPORT

TRUSTS, FINANCE, LAND

Investment Trusts

TRUSTS, FINANCE, LAND—Contd

Finance, Land, etc

WATER

For other Water issues see London Market Issues

OIL AND GAS

OIL AND GAS—Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

Tins

MINES—Contd

Miscellaneous

1989/90 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's
247	69	Anglesey Mining 9p	170	–5	–	–	–
166	18	Do. Warrants	100	......	–	–	–
32½	12	Anglo-Dominion	14	......	–	–	–

THIRD MARKET

NOTES

...for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. † Figures assumed. W Pro forma figures. Z Dividend total to date. Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Stock	Price	+ or –
Albany Inv 20p	83	–2
Craig & Rose £1	830	......
Finlay Pkg 5p	58	......
Holt (Jos) 25p	1348	–2

IRISH

Stock	Price	+ or –
Cap. 8½% Ln. 1991	£96¼	......
9pc Cap Ln. 1996	£90	–1
Fin. 13% 97/02	£107½	–⅛
Arnotts	415	......
Carrol (P.J.)	160	+2
Hall (R. & H.)	198	......
Helton Hldgs	98	......
IRG	210	......
United Drug	168	+5

TRADITIONAL OPTIONS

3-month call rates

Industrials

Stock	p
Allied-Lyons	41
Amstrad	6½
Astec (BSR)	5½
BAT	67
BOC Grp	44
BTR	37
Barclays	40
Blue Circle	20
Boots	23
Bowaters	39
Brit Aerospace	46
British Steel	9
Brit. Telecom	22
Cadburys	31
Charter Cons	42
Comm Union	40
Courtaulds	31
Eurotunnel	65
FKI	8
FNFC	22
Gen Accident	92
GEC	19
Glaxo	60
Grand Met	44
Guardian	19
GKN	33
Hanson	18
Hawker Sidd	55
ICI	98
Jaguar	85
Ladbroke	25
Legal & Gen	31
Lex Service	26
Lloyds Bank	21
Lucas Inds	54
Marks & Spencer	16
Midland Bk	26
Morgan Grenfell	38
Nat West Bk	23
P & O Dfd	51
Polly Peck	38
Racal Elect	20
RHM	39
Rank Org Ord	72
Reed Intnl	34
STC	25
Sears	9
SmKl. Beecham A	48
TI	38
TSB	9
Tesco	16
Thorn EMI	63
Trust Houses	23
T&N	16½
Unilever	57
Vickers	22
Wellcome	55

Property

Stock	p
Brit Land	27
Control Secs	5
Land Securities	45
MEPC	45
Mountleigh	13

Oils

Stock	p
Brit Petroleum	25
Burmah Oil	65
Charterhall	2½
Conroy Petlm	9
Premier	10½
Shell	37
Tuskar Res	12
Ultramar	28½

Mines

Stock	p
Lonrho	23
RTZ	45

FT UNIT TRUST INFORMATION SERVICE

● Current Unit Trust Prices are available on FT Cityline. To obtain your free Unit Trust Code Booklet ring the FT Cityline help desk on 01-925-2128

AUTHORISED UNIT TRUSTS

[illegible]

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGE
[illegible]

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
[illegible]

TIME
[illegible]

HISTORIC PRICING
[illegible]

FORWARD PRICING
[illegible]

SCHEME PARTICULARS AND REPORTS
[illegible]

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Thornton Unit Managers Ltd (1000)F
33 Cavendish Sq., London W1M 7HF 01-493 7262
Dealing 01-493 8545

	Init Charge	Canc Price	Bid Price	Offer Price	+ or -	Yield Grs
American Opps	5	47.43	48.22xd	51.43	-0.21	1.04
(Accum Units)	5	48.81	49.62xd	52.92	-0.22	1.04
European Opps	5	72.19	72.49	77.31	-0.36	0.00
(Accum Units)	5	72.59	72.89	77.74	-0.36	0.00
Far Eastern Opps	5	137.10	137.37	146.52	-0.79	0.00
(Accum Units)	5	137.98	138.25	147.45	-0.81	0.00
Golden Opps	5	45.65	45.98xd	49.03	-0.39	0.00
(Accum Units)	5	46.95	47.29xd	50.44	-0.40	0.00
Intl Hi-Yield	5	57.65	58.09xd	61.96	-0.26	4.44
(Accum Units)	5	62.58	63.07xd	67.26	-0.29	4.44
Sanyo Japan Tst	5	70.43	70.43	75.12	-1.13	0.00
(Accum Units)	5	70.43	70.43	75.12	-1.13	0.00
Kangaroo	5	32.50	32.50	34.66	-0.21	1.50
(Accum Units)	5	32.68	32.68	34.85	-0.22	1.50
Oriental Income	5	34.28	34.35	36.62	-0.24	5.11
(Accum Units)	5	38.43	38.50	41.06	-0.26	5.11
Pacific Technology	5	58.75	58.75	62.66	-0.74	0.00
(Accum Units)	5	59.23	59.23	63.17	-0.75	0.00
Tiger	5	149.87	150.24	160.24	-0.41	0.69
(Accum Units)	5	152.21	152.58	162.74	-0.40	0.69
UK Hi-Yield	5	43.90	43.90	46.82	-0.17	4.59
(Accum Units)	5	50.20	50.20	53.53	-0.20	4.59
UK Opps	5	55.82	58.17xd	62.20	-0.13	1.65
(Accum Units)	5	60.74	63.29xd	67.68	-0.14	1.65

Three Counties Asset Mngmt Ltd (1430)F
Cuthbert House, Tower Road, Washington NE37 2SH 091 415 3034
Balanced Portfolio 6 92.52 93.71 99.69xd -0.57 4.80

Touche Remnant Unit Tst Mngt Ltd (1600)F
Mermaid Hse, 2 Puddle Dock, EC4V 3AT 01-248 1250
4 Hourly Pricing—12 Noon Historic

[illegible]

J. Rothschild Fund Managers Ltd
Intl Exempt 145.3 147.0 [illegible]

Stewart Ivory & Co Ltd
Sales PPP Jan 21 264.6 278.6
Closed to new business

Thornton Unit Managers Ltd
[illegible]

Touche Remnant Unit Tst Mngt Ltd
TR Exempt European 1087 1101
TR Exempt Nth Amer 896 911
TR Exempt Pac Basin 999 1012

INSURANCES

AA Friendly Society
Investment Mngt M & G Inv Mngt Ltd
AA Friendly Sy Feb 9 173.3

Abbey Life Assurance Co Ltd
80 Holdenhurst Road, Bournemouth
Prop. Ser. 1 300.8 316.7
Equity Ser. 1 131.5 138.5
Prop. Acc. Ser 2 463.8 488.3
Equity Ser 2 152.5 160.6
Selective Acc. 344.8 363.0
Prop. Ser. 4 362.6 381.7

[illegible]

OTHER UK UNIT TRUSTS

[illegible]

Continued on next page

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National Financial Management Corp PLC

National Mutual Life

National Provident Institution

Norwich Union Asset Management Ltd

Norwich Union Life Insurance Soc.

Pearl Assurance (Unit Funds) Ltd

Pioneer Mutual Insurance Co Ltd

Premium Life Assurance Co Ltd

Professional Life Assurance Co Ltd

Prolific Life & Pensions Ltd

Property Equity & Life Ass. Co

Providence Capital Life Assc. Co Ltd

Providence Capital Life Assc. Co Ltd – Contd.

Provident Life Assoc Ltd

Provident Mutual Life Assc. Assn.

Prudential Assurance Co

Prudential Holborn Life Ltd

Prudential Holborn Pensions Ltd

Prudential Pensions Limited

Regency Life Assurance Co Ltd

Reliance Mutual

Royal Heritage Life Assurance Ltd

Royal Heritage Life Assurance Ltd – Contd.

Royal Life Insurance Ltd

Royal Liver Assurance

Save & Prosper Group

Scottish Amicable

Scottish Equitable Life Assce. Soc.

Scottish Life Investments

Scottish Mutual Assurance Society

Scottish Mutual Investments

Scottish Provident Institution

Scottish Widows' Group

Shield Assurance Ltd

Skandia Life Assurance Co Ltd

Standard Life Assurance Company

Sun Alliance Group

Sun Life of Canada (UK) Ltd

Sun Life Unit Assurance Ltd

TSB Life Ltd

Target Life Assurance Co Ltd

Tunbridge Wells Equitable

UK Life Assurance Co Ltd

Wesleyan Assurance Society

Windsor Life Assur Co Ltd

Zurich Life Assurance Co Ltd

Sharp (Albert E.) & Co.

Sitkin Fund Managers Limited

South Yorks Investment Management

Tattersall Investment Mngt. Ltd

Tyrry Law & Co

University Medical General Ltd.

J. R. Ward Financial Services Ltd

Walcourt Asset Management Ltd

OFFSHORE AND OVERSEAS

GUERNSEY (SIB RECOGNISED)

MANAGEMENT SERVICES

JERSEY (SIB RECOGNISED)

IoM (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

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SWITZERLAND (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (**)

JERSEY (**)

ISLE OF MAN (**)

LUXEMBOURG (**)

DUBLIN (**)

OFFSHORE INSURANCES

OTHER OFFSHORE FUNDS

Money Market Trust Funds

Money Market Bank Accounts

UNIT TRUST NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Little reaction to Greenspan

THE DOLLAR did not react strongly to US economic news yesterday. This included the semi-annual Humphrey Hawkins testimony before a Congressional committee by Mr Alan Greenspan, chairman of the Federal Reserve Board. He warned that US inflation is currently unpredictable, and in danger of accelerating. Mr Greenspan stressed that holding down the inflation rate is the most important action the Fed can take among its various responsibilities.

January US consumer prices will be published today, and are expected to show an annual inflation rate of 5.0 per cent, against 4.6 per cent in December. Economists fear that high energy and food prices could produce a year-on-year inflation rate of 5.6 per cent during the first quarter of 1990, but this will fall back later in the year.

The Federal Open Market Committee met yesterday and in a report to congress forecast that annual inflation will be 4.0 to 4.5 per cent in the fourth quarter and that real gross national product will expand 1.75 to 2.0 per cent by the fourth quarter, from the same period last year.

The dollar fell below DM1.6700, to a low of DM1.6775, but Mr Greenspan's comments helped lift it back towards the top of the day's range at the London close. It finished a little weaker on the day at DM1.6745, against DM1.6770 on Monday. The US currency also declined to SFr1.4840 from SFr1.4885 and to FFr5.6875 from FFr5.5975, but rose to Y145.35 from Y144.80. Its index rose to 67.0 from 66.9.

The Japanese yen lost ground after an official at the Bank of Japan said Japan's money supply growth in January, of a year-on-year 11.5 per cent, is too high but the central bank will watch the effects of earlier discount rate increases for a little longer. This indicated that another rate increase is probably not yet on the agenda, in spite of the highest money supply growth for nearly two years.

The D-Mark rose to Y86.80 from Y86.22 against the weaker yen, but showed little movement against European currencies. The D-Mark fell to FFr3.3965 from FFr3.3975 as the French franc moved off the bottom of the European Monetary System. At the top of the system was the Italian lira, hovering round its cross rate limit against the weakest EMS currency, the Belgian franc. The D-Mark held steady in the EMS and improved to L741.40 from L741.20 against the lira at the London close.

Mrs Margaret Thatcher, UK Prime Minister, made similar comments to Mr Greenspan, when addressing Parliament. She said the present British inflation rate of 7.7 per cent is too high, and "it remains our priority to get it down."

Sterling rose 15 points to $1.7040 and improved to Y247.75 from Y246.35, but fell to DM2.8525 from DM2.8558; to SFr2.5275 from SFr2.5350; and to FFr9.6925 from FFr9.7000. The pound's index gained 0.1 to 90.0.

£ IN NEW YORK

Feb 20	Latest	Previous Close
£ Spot	[illegible]	1.6970-1.6985
1 month	0.87-0.86pm	0.87-0.85pm
3 months	2.72-2.69pm	2.72-2.70pm
12 months	9.85-9.75pm	9.75-9.65pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

CURRENCY RATES

CURRENCY MOVEMENTS

OTHER CURRENCIES

Feb. 20	£	$
Argentina	7201.40-7222.75	4220.00-4225.00
Australia	2.2345-2.2365	1.3100-1.3110
Brazil	44.1280-44.2295	25.8590-25.8980
Finland	6.7160-6.7375	3.9350-3.9450
Greece	267.60-272.10	156.40-159.00
Hong Kong	13.3250-13.3380	7.8080-7.8100
Iran	117.00*	69.25*
Korea(Sth)	1168.50-1187.30	682.70-693.10
Kuwait	0.4960-0.4975	0.2900-0.2910
Luxembourg	59.50-59.60	34.90-35.00
Malaysia	4.6050-4.6160	2.7000-2.7020
Mexico	4650.55-4660.15	2726.00-2730.00
N. Zealand	2.8825-2.8885	1.6875-1.6905
Saudi Ar.	6.4050-6.4145	3.7500-3.7510
Singapore	[illegible]-3.1755	1.8580-1.8600
S. Af (Cm)	4.3250-4.3360	2.5370-2.5385
S. Af (Fn)	5.9080-6.0035	3.4600-3.5210
Taiwan	43.85-[illegible]	[illegible]-26.15
U.A.E.	6.2750-6.2810	3.6720-3.6730

*Selling rate

EURO-CURRENCY INTEREST RATES

Feb 20	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D. Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sw. Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Deutschmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Fr. Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
B. Fr. (Fin)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
B. Fr. (Con)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D. Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

POUND SPOT- FORWARD AGAINST THE POUND

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

EMS EUROPEAN CURRENCY UNIT RATES

EXCHANGE CROSS RATES

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES AND OPTIONS

LIFFE LONG GILT FUTURES OPTIONS · LIFFE US TREASURY BOND FUTURES OPTIONS · LIFFE BUND FUTURES OPTIONS · LIFFE £/$ OPTIONS · LIFFE EURODOLLAR OPTIONS · LIFFE SHORT STERLING OPTIONS · PHILADELPHIA SE £/$ OPTIONS

LONDON (LIFFE) · CHICAGO

BASE LENDING RATES

MONEY MARKETS

London rates ease

UK MONEY supply and bank lending figures were generally well received on the London money market yesterday, but were in line with expectations and had little impact on interest rates. Narrowly defined M0 money supply rose by the expected 0.3 per cent in January, while the year-on-year rise of 5.8 per cent in M0 also caused no great surprise. Growth of £5.8bn in bank and building society lending (M4) in January was well below the December rise of £10.5bn, but was in line with forecasts. Three-month interbank eased to 15$\frac{3}{16}$-15$\frac{1}{16}$ from 15$\frac{5}{16}$-15¼ per cent.

UK clearing bank base lending rate 15 per cent from October 5

Short sterling futures on Liffe have already discounted much of the potential weakness in the UK economy, and despite opening lower at 85.12 for June delivery, rallied to finish around the middle of the day's, at 85.15, against 85.14 on Monday.

Day-to-day credit remained tight on the cash market. The Bank of England forecast a shortage of £1,300m and provided help of £1,223m.

In an early round of assistance the authorities bought £316m bills, including outright purchases of £66m band 2 bank bills at 14¾ per cent. At the same time £250m bills were bought, for resale to the market on February 26, at 14$\frac{13}{16}$ per cent.

Before lunch another £127m bills were purchased outright, by way of £1m bank bills in band 1 at 14¾ per cent; £1m Treasury bills in band 2 at 14¾ per cent; and £125m bank bills in band 2 at 14¾ per cent.

In the afternoon the Bank of England completed its help for the market by purchasing a further £780m bills outright, via £641m bank bills in band 1 at 14¾ per cent; £41m Treasury bills in band 2 at 14¾ per cent; and £98m bank bills in band 2 at 14¾ per cent.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £735m, with Exchequer transactions absorbing £435m, and bank balances below target £210m. These outweighed a fall in the note circulation adding £70m to liquidity.

In Frankfurt call money eased to 7.65 from 7.70 per cent. Comfortable conditions led to suggestions that the Bundesbank might allocate less than the DM19.5bn required to replace an expiring securities repurchase agreement at this week's tender. A 28-day pact has been offered to the market at variable bid rates.

FT LONDON INTERBANK FIXING

MONEY RATES

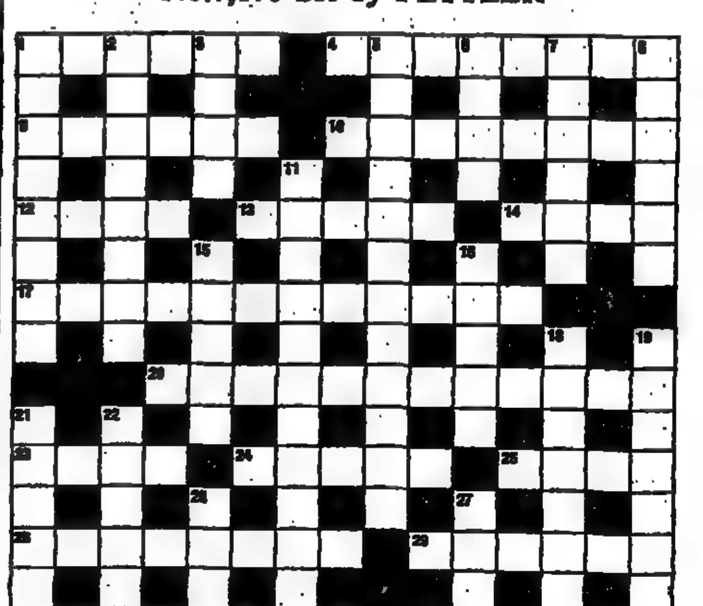
NEW YORK (Lunchtime) · Treasury Bills and Bonds

LONDON MONEY RATES

JOTTER PAD

CROSSWORD

No.7,170 Set by FETTLER



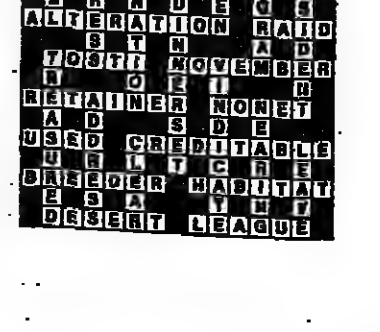
ACROSS

1 A good sport has account in bookies' enclosure (6)
4 And one chap worked to slow down faster runners (8)
9 Firm, where nags are in evidence (6)
10 Decrepit, mangy hack – caught out at a horsy event (8)
12 Record, often broken at start and finish of race (4)
13 Won or worn! Runners see no difference (5)
14 On reflection, she's mad (4)
17 Using commercial data; betters recost income (12)
20 Place to stop a steeplechase (5-2-5)
23 Chances of winning are somewhat scrappy (4)
24 When back-marker's in front, racing tipsters become fat (5)
25 Revolutionary horse's pace (4)
28 As racegoer is, speculative it proves (8)
29 Electric ray, for example, takes in the winning post (6)
30 False start; is one thus a critic? (8)
31 Lays off where riders sometimes fall off (6)

DOWN

1 Sports set store by what winners sport (8)
2 Grand National winner (8)
3 Newmarket's leader – in way of a course (4)
5 Such a trip can end with riders in the air (1,7,4)
6 Ditch in ground, I keeled over (4)
7 Ascot stock? (6)
8 Located in the first three or four (6)
11 Courses, such as York or Aintree (12)
15 How runners go! Like clockwork (5)
16 How runners go, we hear! Flow perhaps? (5)
18 Entering pie racing? One dropped out (8)
19 Runners can pick up what saddlers drop (8)
21 Produced by 14 and 27 (6)
22 Leaders of race observed entering opening; that's skilful! (6)
26 Blaze identifies top-class racer (4)
27 He, as father, is often seen in retirement (4)

Solution to Puzzle No.7,169



WORLD STOCK MARKETS

AUSTRIA

[illegible]

BELGIUM/LUXEMBOURG

[illegible]

DENMARK

[illegible]

FINLAND

[illegible]

FRANCE

[illegible]

FRANCE (continued)

[illegible]

GERMANY

[illegible]

GERMANY (continued)

[illegible]

ITALY

[illegible]

ITALY (continued)

[illegible]

NETHERLANDS

[illegible]

NORWAY

[illegible]

SPAIN

[illegible]

SWEDEN

[illegible]

SWITZERLAND

[illegible]

SOUTH AFRICA

[illegible]

JAPAN

[illegible]

AUSTRALIA

[illegible]

AUSTRALIA (continued)

[illegible]

HONG KONG

[illegible]

MALAYSIA

[illegible]

SINGAPORE

[illegible]

NOTES — Prices on this page are as quoted on the individual exchanges and are last traded prices. [illegible]

CANADA

TORONTO
4pm prices February 20

[illegible]

MONTREAL
4pm prices February 20

[illegible]

INDICES

NEW YORK

DOW JONES	Feb 20	Feb 16	Feb 15	Feb 14	1989/90 HIGH	1989/90 LOW	Since compilation HIGH	Since compilation LOW
♦Industrials	2596.85	2635.59	2649.55	2624.32	2810.15 (2/1/90)	2144.64 (3/1/89)	2810.15 (2/1/90)	41.22 (2/7/32)
Home Bonds	91.09	91.46	91.53	91.35	94.15 (2/8/89)	87.35 (23/3/89)	—	—
Transport	1067.92	1079.30	1081.26	1083.21	1532.01 (5/9/89)	959.95 (3/1/89)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	218.56	221.27	221.96	222.21	236.23 (2/1/90)	181.84 (24/2/89)	236.23 (2/1/90)	10.50 (8/4/32)

♦Day's High 2619.14 (2649.37) Low 2579.05 (2623.65)

STANDARD AND POOR'S	Feb 20	Feb 16	Feb 15	Feb 14	1989/90 HIGH	1989/90 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	327.99	332.72	334.90	332.01	359.80 (9/10/89)	275.31 (3/1/89)	359.80 (9/10/89)	4.40 (1/6/32)
Industrials	378.66	383.81	386.51	383.13	411.20 (2/1/90)	318.66 (3/1/89)	411.20 (2/1/90)	3.62 (21/6/32)
Financial	28.13	28.62	28.53	28.05	35.24 (9/10/89)	24.30 (3/1/89)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	181.37	183.75	184.70	183.21	199.34 (9/10/89)	154.98 (3/1/89)	199.34 (9/10/89)	4.46 (25/4/42)
Amex Mkt. Value	354.88	358.77	359.60	358.78	397.03 (10/10/89)	305.24 (3/1/89)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	423.83	429.01	429.61	426.56	485.73 (9/10/89)	378.56 (3/1/89)	485.73 (9/10/89)	54.87 (31/10/72)

	Feb 9	Feb 2	Jan 26	year ago (approx.)
Dow Industrial Div. Yield	4.09	4.16	4.20	3.63

	Feb 14	Feb 7	Jan 31	year ago (approx.)
S & P Industrial div. yield	3.11	3.09	3.13	3.13
S & P Indl. P/E ratio	14.21	14.23	14.04	13.63

NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Closing price	Change on day
Gt N Nekoosa	2,042,400	65¼	+ 1½
Gen Elect.	1,839,000	60⅞	− 1⅛
Philip Morris	1,833,200	37⅝	− ⅛
Texas Utils.	1,739,500	34⅜	− ¼
Bank New Eng	1,507,300	4⅛	− ¼
A T & T	1,465,700	39	− ¾
Growth Fd	1,444,400	12⅛	− ⅜
IBM	1,391,600	102⅛	− ⅜
Utd. Telecom	1,385,300	31⅞	− 1⅞
Global Marine	1,376,700	5⅛	− ⅛

TRADING ACTIVITY

† Volume Millions	Feb 20	Feb 16	Feb 15
New York	147,300	166.840	174.630
Amex	11.688	12.317	11.397
NASDAQ	(u)	120.220	152.376
Issues Traded	1,967	1,934	1,951
Rises	320	762	899
Falls	1,267	727	564
Unchanged	380	445	488
New Highs	13	32	32
New Lows	84	41	61

CANADA

TORONTO	Feb 20	Feb 19	Feb 16	Feb 15	1989/90 HIGH	1989/90 LOW
Metals & Minerals	2981.50	3037.47	3029.97	3017.93	3919.2 (1/9/89)	2933.48 (12/2/90)
Composite	3692.25	3734.76	3731.68	3732.74	4037.8 (6/10/89)	3350.5 (6/1/89)
MONTREAL Portfolio	1872.96	1901.23	1901.93	1898.09	2069.68 (10/10/89)	1677.48 (3/1/89)

Base values of all indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

AUSTRALIA, AUSTRIA, BELGIUM, DENMARK, FINLAND, FRANCE, GERMANY, HONG KONG, IRELAND, ITALY, JAPAN, MALAYSIA, MEXICO, NETHERLANDS, NORWAY, SINGAPORE, SOUTH AFRICA, SOUTH KOREA, SPAIN, SWEDEN, SWITZERLAND, TAIWAN, THAILAND, WORLD

[illegible]

TOKYO - Most Active Stocks
Tuesday February 20 1990

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Steel	25.2m	905	-6	Sumitomo Metal Ind	4.8m	692	-11
[illegible]	8.7m	1,540	-80	Hitachi	4.1m	1,380	-20
[illegible]	5.8m	1,680	+80	Kobe Steel	4.0m	745	-9
[illegible]	5.4m	1,030	-10	Toshiba Kogyo	3.9m	1,240	+10
Sharp	4.9m	1,880	-30	Sankyo Aluminum	3.8m	1,770	0

4pm prices February 20

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A–A–A –								
37½	24¾	AAR	.48	1.6	18	1202	31¼	30⅞	30⅞	– ½
9¼	8½	ACM n	1.26	14.		243	9⅜	9¼	9¼	– ⅛
11⅝	10½	ACMIn	1.26	11.		569	11⅛	11	11	
9⅞	8	ACM M	n1.01	13.		330	8⅛	8	8	– ⅛
12⅛	11½	ACMMM				460	11⅝	11½	11⅝	+ ⅛
11½	10	ACM Sc	1.26	11.		1495	11⅛	10⅞	11	
9⅜	8⅛	ACMSp	1.01	11.		883	9⅛	9⅛	9¼	
19⅞	11½	AL Lab	.15	.8	20	144	19¼	18⅞	19⅛	+ ⅛
4⅛	3¼	AMCA	.12e	3.7	8	412	3⅞	3¼	3¼	– ⅛
6⅛	3⅜	AM Intl			8	645	3¾	3⅝	3¾	+ ⅛
23½	16⅞	AM In pf	2	12.		47	17½	17	17	– ⅝
107¼	52½	AMR			6	5796	56⅛	55⅜	55⅝	– ⅜
5½	3⅛	ARX				26	3⅜	3⅛	3⅜	
72¾	39	ASA	3a	5.1		2415	60	58⅞	58⅞	+ ½
70⅜	50⅞	AbtLab	1.40	2.2	17	9189	65⅛	64¼	64⅜	– 1
17⅝	11¼	AbitIbi g	.50			34	12⅝	12½	12⅝	
13	8⅞	AcmeC	.40	4.4	10	154	9⅛	8⅞	9⅛	+ ⅛
9⅜	6	AcmeE	.32	3.6	12	2	9	9	9	+ ⅛
39½	27	Acuson			20	463	32½	31⅞	32	– ¾
16½	12⅞	AdaEx	2.09e	13.		142	15½	15⅜	15½	
15⅜	7⅛	Adobe				271	13⅛	13	13⅛	+ ⅛
20¼	16⅞	Adob pf	1.84	9.7		23	19	18⅞	18⅞	– ¼
21⅜	19⅞	Adob pf	2.40	11.		131	21⅛	21⅛	21¼	
10½	6⅞	AMD			6	1529	7⅝	7⅛	7⅛	– ⅛
35	28¾	AMD pf	3	10.		153	30⅛	29½	29½	– ½
10⅛	5	Advest	.16	2.8	8	511	5¾	5¼	5⅝	+ ⅜
62½	46½	AetnLf	2.76	5.4	9	1570	51¼	50½	50¾	– ½
14	9⅞	AffilPb	.24	2.2		367	10⅞	10⅝	10⅞	
25	16⅛	Ahmans	.88	4.7	10	1701	18⅞	18⅝	18¾	– ⅛

Continued on Page 39

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
5¼	4⅜	RepGyp	.20	4.0	35	11	5	5	5	
52⅞	42¾	RepNY	1.32	2.9	1136	73	45½	45¼	45½	
13¼	1¼	Revlon			7	185	2½	2⅜	2⅜	
33⅞	19¾	ReyRey	.80	4.0	6	216	20½	20¼	20¼	-¼
60⅛	48½	ReyMt	1.80	3.4	6	1675	53¾	53	53⅛	-¼
3½	1⅞	RhnP wt				66	2⅜	2⅜	2⅜	+⅛
22	17½	RhnPl n				6	17⅝	17½	17½	
41⅛	29½	RiteAid	.80	2.5	13	611	32	31½	32	-⅛
13-32	⅛	RvrOak				3	5-32	5-32	5-32	
19⅞	15¾	RbtHlf			14	168	16¾	16¾	16¾	
12¾	9½	Robtsn			16	24	10⅜	10¼	10⅜	-⅛
22⅛	17	RochG	1.56	7.5	10	220	21	20⅝	20⅞	-¼
46¼	27⅝	RochTl	s1.48	4.5	16	369	33½	32¼	32¾	-1⅛
22⅛	18½	RckCtr	1.88	9.5	18	112	19⅞	19⅝	19⅞	
27⅛	19¾	Rockwl	.78	3.7	7	1654	21⅛	21	21⅛	-½
495	413	Rklnt pf4.75		1.1		2	414	414	414	-46
7⅝	4⅞	RodRen				32	6⅛	6	6⅛	+⅛
37½	28¾	RohHaa	1.20	4.1	11	661	29⅞	29⅛	29⅞	
37⅞	18½	Rohr			24	621	19⅞	19½	19½	-¼
14⅛	9⅝	RollinE	.06	.5		1100	13⅜	13	13⅛	-⅜
21	16⅞	Rollins	.56	3.3	17	38	17½	17¼	17⅛	-¼
10¼	7⅛	RolTrk	.20b	2.7	8	146	7⅝	7½	7½	-¼
64⅝	36⅛	Rorer	.84	1.4	23	5108	61½	59⅝	61½	+⅞
13⅝	6	Rowan				6125	u14	12½	13⅞	+½
25⅜	23⅛	RBSct pr.71e		2.9		71	24⅞	24⅝	24½	-⅛
78⅛	65	RoylD	3.36e	4.4	7	3878	76⅞	76	76⅛	-1⅛
16	8½	Roylnt	.20e	2.2	12	43	9¼	9	9	-⅛
10	8⅜	Royce	.52e	6.9		85	8⅞	8⅝	8¾	-⅛
37⅞	25⅛	Rubmd	.52	1.6	20	974	32⅛	31⅝	32	-¼
20⅝	14⅛	RussBr	.40	2.7	18	15	15	15	15	
15	9⅛	RussTg	.20	2.2	183	65	9⅛	9⅛	9⅛	
29½	18⅜	Russell	.32	1.3	18	551	24	23⅝	23⅞	
31⅛	17⅜	Ryder	.60	3.4	31	2196	17⅞	17⅝	17⅝	-⅛

[illegible]

NASDAQ NATIONAL MARKET

5pm prices February 20

[illegible]

Stock	Div.	P/E	Sales 100s	High	Low	Last	Chng
Xicor			144	251	3	2⅞	2⅞
YanEnS	.76e	14	11	21½	20⅝	21½	+⅜
YelowF	.76	37	486	24⅛	23⅛	23⅛	-½
YorkRs		15	434	9½	8⅝	8⅞	-⅛
ZionUt	1.44	11	42	27⅛	26½	26½	-⅛

AMEX COMPOSITE PRICES

4pm prices February 20

[illegible]

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
ValFrg	.30	11	1	9	9	9	-⅛
VtRsh		81	6	1⅜	1⅜	1⅜	
WangB			2755	4	3⅞	3⅞	-⅛
Wthfrd			1141	6⅞	5⅝	6⅛	-¼
Wellco	.25	7	38	15⅜	14⅝	15⅜	+⅜
WelGrd			80	3¾	3⅝	3¾	
WAmBc	.44	15	6	20⅞	20⅞	20⅞	-½
WDigtl		18	304	9	8¾	8⅞	-⅜
WIRET	1.42	16	40	18	17⅞	17⅞	
Worthn		12	19	11⅛	11⅛	11⅛	

AMERICA

Interest rate worries and inflation fears hit Dow

Wall Street

NERVOUSNESS about higher interest rates overseas and worries about today's January consumer price report, conspired to push equities broadly lower on Wall Street yesterday, *writes Karen Zagor in New York.*

The Dow Jones Industrial Average closed down 38.74 to2,596.85. Volume on the New York Stock Exchange was moderate, with 147.3m shares changing hands. The decline on the New York Stock Exchange was broadly-based, with declining issues outnumbering advancing ones by 1,265 to 321.

Among broader market indices, the Standard & Poor's 500 dropped 4.73 at 327.99, the NYSE was off 2.38 at 181.37 and the American Exchange Composite was down 3.89 at 354.88.

Weakness in the Japanese and West German bond markets was cited as the early reason for the fall in US equities, with the Dow falling 25.01 by 10am. Futures-related sell programmes also put pressure on US stocks.

Similarly, the debt market was affected by the higher yields in overseas markets. In late trading, the Treasury's bellwether 30-year-bond was down 1⅛. The long bond's yield of 8.65 per cent was its highest of 1990.

In the stock market, sell programmes stemming from stock-index arbitrage hit the market about five minutes into the session, when index futures fell into a discount against cash indices.

The stock market was also hurt by fears that January's Consumer Price Index would be higher than initially expected. Mr Alan Greenspan, chairman of the Federal Reserve, said the index would probably show a sizable jump in energy and food prices thanks to the cold weather in December.

Money-centre banks were especially weak yesterday. Citicorp lost $¾ to $23½, Chase Manhattan fell $¾ to $29¼, BankAmerica dropped $⅝ to $27⅝.

Among other rate-sensitive issues, Federal National Mortgage Association fell $⅞ to $33⅝ and Federal Home Loan Mortgage dropped $1 to $65⅝.

Issues of several precious metals companies moved higher after posting losses last week. Battle Mountain Gold gained $¼ to $16⅝, Homestake Mining rose $⅝ to $22⅝, ASA rose $⅛ to $58⅞. Hecla Mining slipped $⅛ to $15⅞.

Great Northern Nekoosa rose $1⅝ to $65⅝ after the company accepted a sweetened takeover bid of $65¾ by Georgia Pacific. The issue was one of the most active on the New York Stock Exchange. Shares in Georgia Pacific fell $1⅝ to $43⅝.

United Telecommunications fell $1⅝ to $31⅛. The Federal Bureau of Investigation has stared an inquiry into whether the company's US Sprint Communications unit illegally obtained competitors confidential bid information and used it to win part of a Federal telephone services contract.

In over-the-counter trading, the Nasdaq Composite Index was off 5.114 at 428.87.

Nordstrom fell $1⅞ to $27⅝. The big US retailer is expected to post a decline in annual profits for the first time since the company went public in 1979.

Canada

STOCK prices closed sharply lower in moderate trading, mirroring falls on Wall Street.

Toronto's composite index fell 42.51 to 3,692.25. Falls outnumbered advances 466 to 188 on volume of almost 29m shares, with a trading value of C$298.3m.

Mining issues, industrial and banking stocks were all down by at least 1 per cent. Energy issues were also lower while gold stocks rose 1 per cent.

During the afternoon the Canadian Government introduced a budget that predicts a deficit of C$28.5bn in the 1991 fiscal year, down from a deficit of C$30.5bn in the 1990 fiscal year to end-March.

EUROPE

US slide reinforces gloom caused by bonds

THE DEPRESSING effect on equities of the slide in bond markets, some of which made slight recoveries towards the end of trading, were reinforced yesterday by the early sharp decline on Wall Street, *writes Our Markets Staff.*

FRANKFURT tumbled again as the Bundesbank's average bond yield rose from 9.05 to 9.15 per cent. Bond yields ended 5 to 10 basis points below their peak as traders speculated that investors might begin to see value in them – more value than in equities, at least.

Equities saw the FAZ index move lower after making little change on Monday, falling 22.04, or 2.8 per cent, to 768.24 at midsession. The DAX dropped 45.36, or 2.4 per cent, to 1,823.81 after a 24.67 decline the day before. Volume rose fractionally, from DM8.6bn to DM9.1bn, with Veba once again leading individual stocks in turnover of DM1.4bn.

Chemicals lost their relative strength, with a DM16 fall to DM305 in Bayer leading the sector's decline; similarly, among carmakers, Volkswagen took the brunt of yesterday's decline, off DM18 to DM551 after a show of resilience.

Banks were under pressure on fears of bond losses and higher costs because of the rise in interest rates. Deutsche Bank fell DM26.50 to DM781 and Commerzbank shed DM14 to DM296.

However, the Degussa metals and chemicals group climbed DM5 to DM527 after confirming co-operation talks with E Merck, a privately held German chemical and pharmaceutical group. There have been press reports that a full merger is planned.

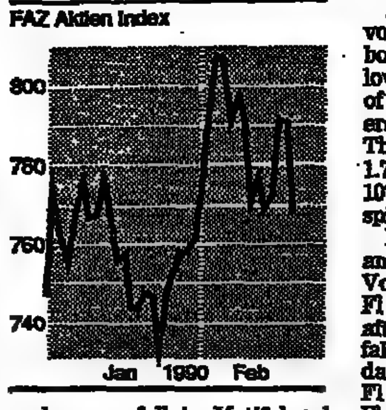
MILAN fell sharply on fears of a possible break-up of Enimont, the chemicals company; of a rise in domestic interest rates; and on reports that mutual funds face net redemptions of L800bn this month. The Comit index closed 8.50 lower at 687.68 in thin trading.

Speculation that the public/private chemical joint venture, Enimont, is poised to be dissolved, because its founding partners Montedison and state-owned ENI, which own 40 per cent each, are unable to agree, left Enimont down L49 at L1,466 and Montedison L66 lower at L1,572.

PARIS had a poor session on the last day of the monthly account, as the CAC 40 index lost 17.87 points, or 1 per cent, to 1,830.16. Equities focused early on a fall in Matif bond futures and, with Wall Street opening lower, failed to respond to a Matif recovery.

W. Germany

FAZ Aktien Index



In spite of the declines, there was no great selling pressure, and turnover was estimated at FFr2bn. The beginning of the school holidays today was expected to keep trading light.

Michelin, the tyre maker, eased 90 centimes to FFr151 after it confirmed that it proposed to seek $750m in debt financing on Euromarkets.

Eurotunnel edged higher again, rising 60 centimes to FFr57.10 in modest volume, amid optimism that it would sort out its problems with its contractor, Transmanche Link.

AMSTERDAM remained nervous about movements in the bond market, and shares fell in low volume, with only a flicker of interest when bonds recovered briefly in the afternoon. The CBS tendency index fell 1.7 points, or 1.6 per cent, to 107.4, with Wall Street keeping spirits low.

High technology issues were among the biggest losers, with Volmac Software dropping Fl 6.60, or 14.2 per cent, to Fl 40 after reporting a 12 per cent fall in net profits late on Monday. Tulip Computer lost Fl 3.50, or 9.5 per cent, to Fl 33.50 in anticipation of lower profits, due today.

Royal Dutch, which also reports results today, fell Fl 1.60 to Fl 144.60. Bols, the distiller, shed Fl 2 to Fl 187; it said later that it was discussing the purchase of three French wine producers.

STOCKHOLM closed broadly lower in moderate trade which reflected market nervousness over the unstable political situation and rising domestic credit yields. The Affärsvärlden index fell by 17.9 points, or 1.5 per cent, to 1,140.0.

Astra free B shares lost SKr5 to SKr400 after the company revealed annual profits up 23 per cent at SKr1.35bn, in line with expectations.

Among the declining issues were Asea free B shares, down SKr15 to SKr745, Ericsson free B shares, SKr10 lower at SKr850, and Volvo free Bs, off SKr10 at SKr365.

BRUSSELS ended lower in depressed trading, with the cash market index falling 100.47 to 5,822.2 in moderate volume. Industrial stocks lost ground and most holding companies eased, including Société Générale de Belgique, which fell by BFr140 to BFr3,110.

Groupe Bruxelles Lambert, which last week wrote off its stake in Drexel Burnham Lambert, fell a further BFr70 to BFr3,635.

OSLO slipped from record levels in moderate trading. The all-share index finished at 610.3, down 8.86 points or 1.4 per cent. COPENHAGEN experienced a second day of falls as the bourse index fell 3.16 to 364.40, for a drop so far this week of 2.5 per cent.

VIENNA's run of record highs came to a halt, as the bourse index fell 9.47 to 689.70 in active trading. Underlying sentiment, however, was said to remain strong.

ASIA PACIFIC

Nikkei declines again as investors lose heart

DISHEARTENED by the response to Sunday's election results and by further signs of a likely increase in the official discount rate, investors turned their backs on the equity market yesterday, *writes Michiyo Nakamoto in Tokyo.*

Turnover fell to 335m shares, its second lowest level this year, from the 341m traded on Monday. The Nikkei average fell below the 37,000 level for the first time in more than two weeks, moving between a low of 36,868.14 and a high of 37,157.56, before closing with a loss of 327.08 at 36,895.52.

Declines outnumbered advances by 694 to 224, with 192 unchanged. The widely-based Topix index fell 22.48 to 2,696.08 and, in London, the ISE/Nikkei 50 index lost 10.49 to 1,580.16.

Interest rate fears undermined the bond market, and falling bond prices put pressure on equities. Investors also began to fear that, to tackle inflation properly, any increase in the discount rate would have to be much higher than in recent times.

The yen has been weaker than the authorities would like, and yesterday saw the announcement of the year-to-year money supply growth in January, which was at an unexpectedly high 11.5 per cent. Only last month, a money supply growth rate of 10.5 per cent for December had prompted concerned statements from the central bank.

Against this background, the mood on the market was understandably dark. "We are all depressed," said Mr Kazuma Kitai at County NatWest Securities in Tokyo. "People were saying that the election victory had already been discounted by the market. I think that, in truth, everyone was surprised at the total lack of a positive response to the election results, which were in fact much better than expected.

"The market has lost a huge amount of momentum . . . and it is going to take a lot to regenerate interest," commented another broker at a foreign firm. The consensus, however, was that, rather than suffer a sharp plunge, the market was likely to drift down slowly.

Special situations saw some interest again. Nissin Electric, which supplies heavy machinery to electric power companies, added Y50 to Y1,660. It was expected to benefit from increasing demand for electric power.

The Tokyo Stock Exchange announced after the market closed that it would ease margin trading restrictions by reducing the collateral requirement from 60 per cent to 50 per cent of the underlying value of the stock. The move was greeted by market participants as likely to help stimulate interest in the market.

Losses in interest rate-sensitive, large-capitalisation issues pulled the OSE average in Osaka down 288.71 to 38,258.31. Volume was up at 71.9m shares from 68.8m on Monday.

Roundup

THE REGION was split yesterday, with Australia and New Zealand both in retreat and the other markets mostly rising, including Singapore which were at an all-time high.

AUSTRALIA fell sharply, with the All Ordinaries index down 15.5 at 1,630.4, as the weakness of Tokyo and the strength of the Australian dollar kept buyers away.

Turnover was 93m shares valued at A$152m, but that did not include a block sale by Adelaide Steamship of 67m shares in Australia & New Zealand Banking group at A$6.10 to Westpac Banking shortly after the close.

Adsteam firmed 2 cents to A$5.32, while Westpac dropped 10 cents to A$5.54 and ANZ fell 4 cents to A$5.70.

Bougainville Copper slid 17 cents to 78 cents on continuing fears that its copper mine in Papua New Guinea mine would not reopen.

NEW ZEALAND dropped again in thin trading. The Barclays Index fell 16.36 to 1,847.73. Brierley Investments continued to fall, dropping 2 cents to NZ$1.72. Industrial Equity, Brierley's Hong Kong-based unit, fell 4 cents to NZ$2.11.

SINGAPORE closed mostly firmer as hectic over-the-counter trading in Malaysian stocks continued. The Straits Times index gained 2.17 to 1,595.4, an all-time high. The previous peak was on February 12. KUALA LUMPUR slipped from Monday's record levels, however, as profit-taking set in, with the composite index easing 2.07 to 622.20.

HONG KONG rose in continued heavy trading, as the market revived after early profit-taking. The Hang Seng index advanced 12.90 to 2,980.60, its best finish since May.

TAIWAN staged a technical rebound, with active buying by big players. The weighted index surged 479.29 points to 12,271.94, its largest single-day's gain this year.

JAKARTA's turnover surged again, reaching 3.4m shares after Monday's 2.7m, as the composite index rose 6.16 to 479.39.

SOUTH AFRICA

GOLD issues led the rise as Johannesburg closed broadly firmer, but trading was thin and cautious as political uncertainties continued to overshadow the market.

The JSE all-gold index climbed 73 points to 2,014 and the industrial index added 28 points to 3,104.

In the gold sector Vaal Reefs rose R15 to R403 and Beatrix firmed R1.50 to R81, while among other mining issues De Beers rose R1 to R68.75.

South Africa plunges as global markets retrench

By Jacqueline Moore

FOREIGN investors' enthusiasm immediately before the release of Mr Nelson Mandela quickly evaporated when he reaffirmed the African National Congress's (ANC) commitment to nationalising private assets, including the mines. The South African market dropped 7.4 per cent last week, after the previous week's 4.6 per cent rise.

Elsewhere, it was mostly a sluggish week, with the FT-Actuaries World Index finishing almost unchanged. Of the leading markets, the US, West Germany and the UK showed small declines, which were counterbalanced by a modest rise in Japan.

Gold shares in South Africa saw the heaviest selling, and the Johannesburg Stock Exchange Gold index fell 11.6 per cent in the three days after Mr Mandela's release on Sunday, February 11. The industrial index lost 4 per cent. There was a rally on Thursday, with the lower share prices attracting European and domestic interest, and a steady session on Friday, after the ANC said that it would seek an early meeting with President F.W. de Klerk to remove obstacles to negotiations.

Only five countries moved by more than 2 per cent last week: as well as South Africa, the other big losers were Sweden and Belgium, while Austria continued its remarkable surge and Mexico – which has risen by more than 171 per cent in local currency terms since this time last year – rose by a rather restrained 2.1 per cent.

As in South Africa, politics was the undermining force in Sweden. The resignation of the Government on Thursday, after its failure to gain parliamentary approval for an austerity package, sent the market down 5.6 per cent. Rising interest rates added to the depression, although the settlement at the end of the week of the strike by bank employees took the edge off the gloom.

The Belgian bourse became tangled in the Drexel Burnham Lambert affair, the US investment bank has filed for protection under Chapter 11 of US bankruptcy law. Together with rising interest rates, this pushed shares down 3.5 per cent over the week, although bargain-hunting at the end of the week limited the damage.

Groupe Bruxelles Lambert, the Belgian holding company, dropped 6 per cent on the Tuesday on news that Drexel of the US, in which it has an indirect stake, was in difficulties. GBL fell a further 3 per cent on the Wednesday, after saying it would write off the stake.

In Austria, investors were worried only about the speed at which share prices have been rising. The world's top performer this year gained a further 4.6 per cent last week, taking its advance so far in 1990 to 41.6 per cent in local currency terms.

While West Germany's strength since the opening of the Berlin Wall has faltered in the face of weak domestic bonds, Austria's eastern European rally has powered ahead. Political changes in Czechoslovakia and elsewhere in the East bloc have raised the earnings prospects of Austrian companies, and share prices have shot up as a result.

MARKETS IN PERSPECTIVE

	% change in local currency †				% change sterling †	% change in US $ †
	1 Week	4 Weeks	1 Year	Start of 1990	Start of 1990	Start of 1990
Austria	+4.68	+22.10	+149.94	+41.56	+34.43	+41.34
Belgium	-3.62	-9.92	-5.56	-10.10	-13.66	-9.21
Denmark	-0.67	+1.51	+32.74	+2.65	-0.75	+4.96
Finland	-0.76	+2.79	-4.96	+9.40	+6.17	+11.63
France	-1.76	-2.75	+15.54	-6.50	-6.90	-5.19
W. Germany	-0.33	-5.47	+41.06	+5.63	+1.53	+6.75
Ireland	-1.92	-5.60	+24.64	+3.04	+0.58	+5.75
Italy	+0.56	-4.74	+10.31	-3.58	-6.59	-1.78
Netherlands	+0.61	+0.43	+10.26	-4.40	-6.29	-3.54
Norway	+1.88	+10.46	+39.29	+16.74	+15.15	+21.06
Spain	-1.19	-1.40	+1.23	-5.75	-9.57	-4.62
Sweden	-5.62	-4.84	+19.01	-4.57	-8.32	-3.60
Switzerland	+0.41	+0.77	+20.41	+0.13	-1.62	+3.44
UK	+0.30	-0.66	+10.35	-3.35	-3.35	+1.06
EUROPE	-0.36	+0.34	+16.39	-2.16	-4.31	+0.62
Australia	+0.74	-2.15	+17.35	-0.27	-9.30	-4.63
Hong Kong	+0.67	+8.35	-7.16	+2.81	-2.27	+2.76
Japan	+0.59	-0.10	+8.71	-5.75	-10.56	-5.95
Malaysia	+1.24	+6.92	+59.61	+5.66	+1.22	+6.42
New Zealand	+1.04	-3.12	-3.72	-5.74	-11.28	-6.56
Singapore	+0.44	+4.60	+34.43	+5.58	+5.02	+10.42
Canada	-0.71	-0.68	+5.50	-4.40	-12.23	-7.71
USA	-0.30	+0.59	+11.44	-5.69	-10.60	-5.69
Mexico	+2.06	+13.48	+171.26	+16.70	+9.32	+14.95
South Africa	-7.39	+0.40	+50.66	+6.00	+1.16	+6.57
WORLD INDEX	+0.61	+0.34	+10.48	-4.60	-8.61	-4.58

† Based on February 16 1990. Copyright, The Financial Times Limited, Goldman, Sachs & Co., and County NatWest Securities Limited.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	TUESDAY FEBRUARY 20 1990						MONDAY FEBRUARY 19 1990			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Day's change % local currency	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1989/90 High	1989/90 Low	Year ago (approx)
Australia (84)	144.88	-0.6	126.05	126.28	-1.0	5.31	146.02	127.16	127.61	160.41	128.28	136.31
Austria (19)	263.23	-0.6	229.03	229.21	-0.6	1.16	264.71	230.52	230.60	264.71	92.84	98.15
Belgium (61)	139.11	-2.0	121.03	120.24	-1.9	4.63	142.01	123.67	122.58	160.02	125.58	134.67
Canada (120)	138.76	-1.2	120.73	120.73	-1.1	3.41	140.45	122.31	122.04	154.17	124.67	134.09
Denmark (36)	249.38	-0.5	216.97	218.85	-0.6	1.47	250.57	218.20	220.24	260.82	165.38	158.54
Finland (26)	149.87	+0.2	130.39	123.92	+0.1	2.40	149.52	130.21	123.79	168.16	118.63	146.73
France (125)	144.75	-0.7	125.92	129.12	-0.9	2.91	145.77	126.94	130.28	157.97	112.57	117.64
West Germany (96)	128.75	-2.5	112.02	112.08	-2.7	1.89	132.10	115.04	115.17	137.01	79.56	84.87
Hong Kong (48)	122.00	+0.5	106.15	122.31	+0.5	4.69	121.37	105.69	121.68	140.33	86.41	131.72
Ireland (17)	188.35	-1.1	163.88	167.71	-1.0	2.59	190.40	165.81	169.42	198.57	126.00	144.46
Italy (96)	95.79	-1.1	83.34	88.81	-1.3	2.59	96.89	84.37	89.94	102.11	74.97	81.65
Japan (455)	180.43	-1.4	156.98	165.77	-0.9	0.49	183.00	159.36	167.27	200.11	164.22	195.27
Malaysia (36)	245.32	+0.2	213.44	255.19	+0.2	2.08	244.72	213.11	254.71	245.32	143.35	157.84
Mexico (13)	375.00	+0.2	326.27	1118.50	+0.2	0.46	374.40	326.04	1116.71	375.00	153.32	162.16
Netherland (43)	135.76	-1.3	118.14	116.98	-1.4	4.60	137.51	119.75	118.59	145.66	110.93	114.71
New Zealand (18)	66.38	-0.4	57.75	59.53	-0.7	5.79	66.67	58.05	59.95	88.16	62.64	70.61
Norway (24)	237.42	-1.6	206.57	208.42	-1.7	1.46	241.39	210.21	211.90	241.98	139.92	170.76
Singapore (26)	197.62	+0.3	171.94	169.29	+0.2	1.72	196.99	171.54	168.94	199.38	124.57	141.77
South Africa (60)	216.05	+0.2	187.98	164.63	+2.3	3.38	215.59	187.74	161.12	251.39	115.35	127.00
Spain (43)	153.51	-1.2	133.56	125.83	-1.2	4.17	155.38	135.31	127.30	169.75	143.14	143.65
Sweden (35)	179.23	-1.5	155.94	162.39	-1.8	2.25	182.03	158.51	165.32	206.95	138.45	152.61
Switzerland (62)	96.70	-0.9	84.14	88.97	-1.2	2.01	97.59	84.99	90.06	99.12	67.61	77.28
United Kingdom (306)	158.01	-0.8	137.49	137.48	-0.9	4.64	159.24	138.67	138.67	164.31	133.28	150.67
USA (542)	132.78	-1.4	115.52	132.78	-1.4	3.58	134.62	117.23	134.62	146.29	112.13	120.51
Europe (969)	140.87	-1.2	122.56	122.99	-1.3	3.50	142.58	124.17	124.64	146.66	112.63	118.76
Nordic (121)	188.57	-1.0	164.06	161.26	-1.2	1.85	190.52	165.91	163.22	201.89	137.95	147.63
Pacific Basin (667)	176.90	-1.3	153.92	162.52	-0.9	0.74	179.30	156.14	163.94	194.72	160.44	191.06
Euro – Pacific (1656)	162.70	-1.3	141.56	146.77	-1.0	1.71	164.82	143.53	148.29	174.18	141.56	162.53
North America (662)	133.04	-1.4	115.75	132.02	-1.4	3.57	134.86	117.46	133.84	146.66	112.79	121.28
Europe Ex. UK (663)	129.15	-1.5	112.37	114.01	-1.6	2.74	131.11	114.17	115.89	135.73	96.30	100.71
Pacific Ex. Japan (212)	134.37	-0.2	116.91	121.53	-0.4	4.69	134.70	117.30	122.02	140.05	111.93	128.73
World Ex. US (1849)	162.51	-1.3	141.39	146.37	-1.0	1.78	164.60	143.34	147.82	173.77	141.49	161.19
World Ex. UK (2085)	150.21	-1.4	130.69	142.20	-1.1	2.09	152.27	132.60	143.82	162.00	136.88	145.02
World Ex. So. Af. (2331)	150.49	-1.3	130.94	141.55	-1.1	2.32	152.49	132.79	143.17	161.84	136.67	145.62
World Ex. Japan (1936)	137.16	-1.2	119.33	129.39	-1.2	3.53	138.86	120.92	131.02	145.52	114.01	121.10
The World Index (2391)	150.89	-1.3	131.28	141.71	-1.1	2.33	152.87	133.13	143.29	162.05	136.88	145.51

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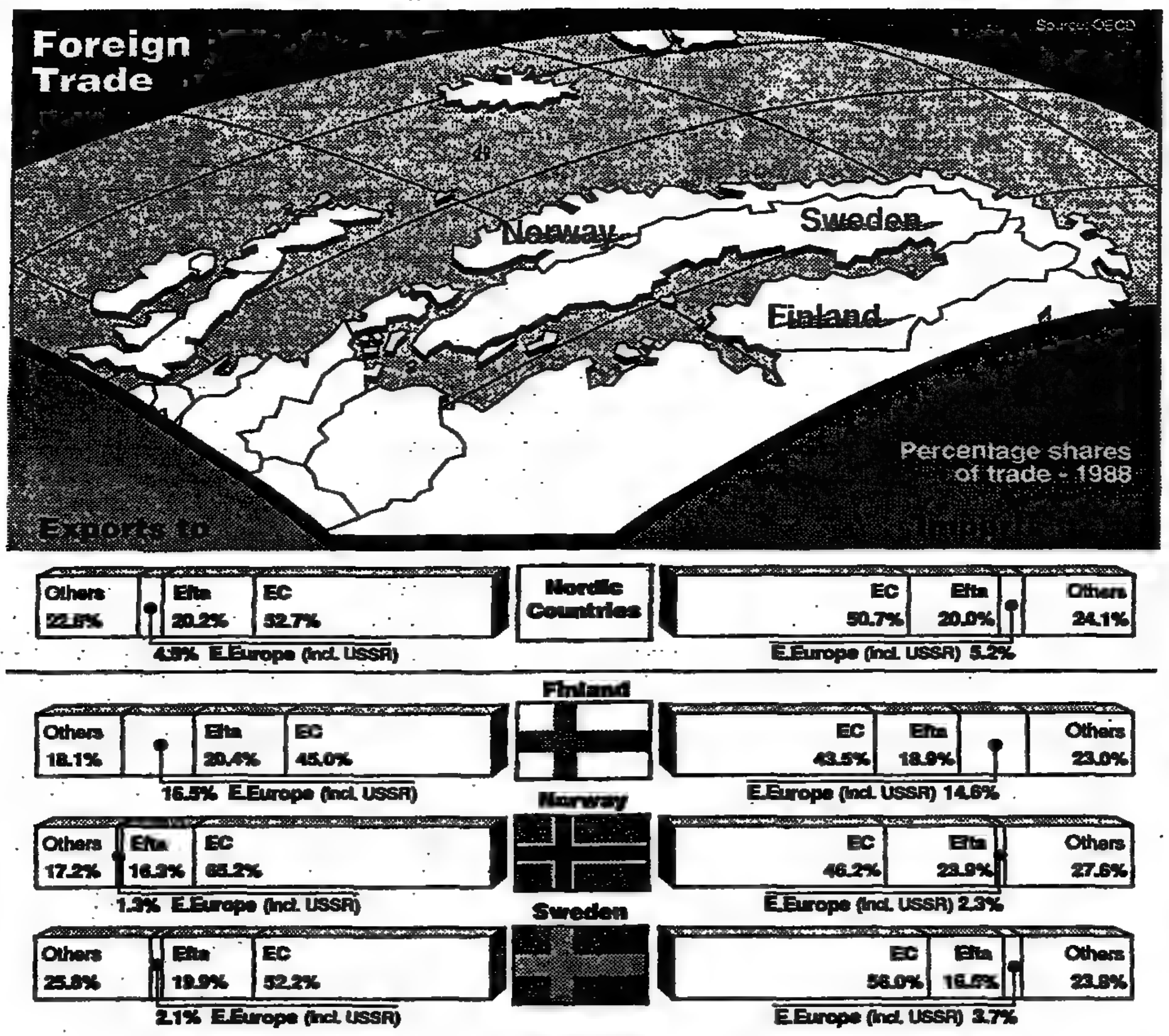
Constituent change 20/2/90: Name change: Ocean Transport & Trading to Ocean Group (UK). Trading on the Helsinki exchange has been reduced following a banking employees dispute.

SECTION IV

FINANCIAL TIMES SURVEY

The EC's dynamism is drawing the Nordic countries into closer economic integration, writes Robert Taylor. And the altered face of eastern Europe will also have implications for the region, whose future should be clearer after this autumn's expected 35-nation supersummit.



The Nordic Countries

IN A CHANGING EUROPE

Graphic: Bob Hutchison
Editorial production: Martin Davies

An end to isolation

AMID THE turmoil and uncertainty of events in Europe, one area of the continent appears to have changed hardly at all.

The Nordic region that lies beyond the borders of the European Community – Sweden, Norway, Finland and Iceland – remains stable and outwardly placid. Out on the chilly edge of mainstream Europe, Nordic nations – all of them democratic, open social market economies – are looking on with both caution and elation.

No doubt many people living there would prefer to remain in complacent self-isolation, trying to shore up their affluent, settled lifestyles. So far, Nordic responses to the unravelling of eastern Europe and the prospect of a reunified Germany have seemed almost glacial in their slowness. But, whether they like it or not, all the Nordic countries will have to reappraise their fundamental beliefs to the changing Europe for the first time since the immediate aftermath of the second world war.

It is not surprising perhaps that they have been circumspect in their reactions to the revolutionary events beyond their borders. After all, they must live with the consequences. Their future will be determined, to a great extent, by Germany and the Soviet Union; and they would have a great deal to lose if today's hopes were to fade before an onrush of economic disintegration and extreme forms of nationalism.

During the last 45 years, the Nordic economies have become some of the most affluent in the world. A balanced degree of egalitarianism and efficiency has convinced many outsiders that they have found a way to marry free market economics with social justice, based on high levels of taxation and public welfare spending.

The latest estimate suggests that the region's 17.6m people enjoy an average per capita income of around $21,232, compared with $14,611 in the EC and $19,813 in the US. Across a wide range of social indices – infant mortality, life expectancy, educational standards, welfare provision, the low level of environmental pollution, as well as the possession of consumer durables – the Nordic countries are far ahead of almost the whole world.

Moreover, the so-called Nordic Model of consensus and compromise, between capital and labour, has created societies relatively free of the acute poverty that continues to scar many western market economies. There is little unemployment, old people are comfortably off, and there is no significant underclass. The Nordic countries, especially Sweden, have become the focus of attraction as models both for reformers in eastern Europe seeking a way out of the economic catastrophe of Soviet-style Communism, and for those on the democratic left in western Europe who want to revise their socialist beliefs.

The Nordic achievement is real enough but it has always been founded on the region's economic dependence on an open international trading system. Exports, as a percentage of gross domestic product, range from Finland's 25 per cent to over 35 per cent in Norway. From the time of their industrial revolutions, at the turn of the century, the Nordic nations have been pressed by the smallness of their own domestic markets to move out in the world to customers in distant areas like south east Asia and North America. Europe, especially Britain and Germany, has always been important to Nordic trade, but not to the exclusion of other markets.

But now the Nordic focus is becoming more concentrated. The dynamism of the European Community is drawing the Nordic countries into closer economic integration with western Europe. The US has lost its old popularity as the major country for Nordic investment. Just over half the region's exports and imports now come to and from the EC.

The existence of free trade in industrial goods between the two areas since the early 1970s has proved to be of mutual advantage.

At the same time, there has been a clear trend to trade sector concentration in the Nordic countries. Two thirds of Norway's exports consist of oil, gas and other energy and raw material-based products such as metals, pulp and chemicals; while, in Sweden, five export items account for 46 per cent of total trade – road vehicles, paper and pulp, industrial machinery, iron and steel, and specialist machinery.

In the late 1980s, the internationalisation of the Nordic economies has also led to a sharp growth in outward investment by big companies – especially into the EC. This is particularly noticeable in Sweden, where the flow of direct investment abroad has risen over sevenfold since 1985, followed by Finland with a quadrupling into the EC. This trend looks set to persist.

The Nordic countries agree – at least for the time being – that they should not seek full EC membership. Their governments also recognise that they must reform themselves internally in a radical way if they hope to compete and thrive in western Europe. This explains why, as members of the European Free Trade Association (Efta), they are negotiating alongside Austria and Switzerland this year for the creation of what is known as a European Economic Space, covering all the market economies of the continent.

As a result they have also embarked on common domestic programmes of action, to liberalise and deregulate their economies in line with the EC's commitment to the internal market. This has meant a commitment to the removal of most of the protective rules and regulations that have governed the Nordic economies since the 1930s.

The governments have also agreed to extend the common labour market that exists between their own economies to cover the EC as well, and to remove the obstacles to the free movement of goods and services. In their convergence with the EC, they are following the rapid acceleration of Nordic companies into the larger market.

But the political outlook of the Nordic nations remains less well-formed than their economic intentions. This reflects the distance that most people in the region still have to travel before they are pyschologically prepared to see themselves as Europeans.

The self-government of the Baltic states, the emergence of a non-Communist Poland and the prospect of a reunified Germany are certain to make a profound impact on the Nordic region. So far this has not led to any fundamental reappraisal of foreign and defence policy. On the contrary, Sweden seems to cling ever more stubbornly to its own concept of neutrality, while Finland believes it must uphold its autonomy and its special relationship with the Soviet Union.

Such conservatism is unsurprising. Indeed, unlike in central Europe, so far President Gorbachev has done little to scale down Soviet defences in the region. On the contrary, he has actually strengthened Soviet naval power in the north Atlantic, to the dismay of Norway, where leaders believe more than ever in the necessity of close ties to the US.

But it is in no power's interest to undermine the stability of northern Europe, especially round the Baltic. The unanswerable question remains, however: just how far can the Nordic countries integrate themselves economically into western Europe without compromising their political autonomy?

In today's climate, the contours of the new Europe are being drawn but their final shape still remains unknown. Nowhere is this truer than in the Nordic region. In recent months there has been discussion of a revival of the Hanseatic idea, which would link Sweden to northern Germany and the Baltic states. Others talk about a more integrated Nordic region, in some kind of relationship with a reformed Soviet Union on the lines spelt out by Mr Gorbachev in Helsinki last November.

It is probable that the Nordic region's position in a changing Europe will become clearer after this autumn's expected super-summit conference of the 35 nations covered by the Conference of Security and Co-operation in Europe (CSCE), who last met in Helsinki in 1975.

This historic meeting – if it goes ahead – could well reshape Europe and bring to a close the post-war settlement created by Yalta and Potsdam, perhaps with the possible dissolution of Nato and the Warsaw Pact. After such a dramatic turn of events, the Nordic region might be expected to participate fully in what would emerge – which could be a much looser kind of political confederation, closer to Mrs Thatcher's vision in Bruges than EC President Jacques Delors' centralised community. If this were so, the Nordic countries would have no need for caution and fear in rejoining the rest of Europe.

■ THE POLITICAL OVERVIEW: The three countries that are members of Efta differ in their attitudes towards the changing Europe . . .

Swedish neutrality poses a difficult hurdle

SWEDEN'S NEUTRALITY stands as an insurmountable barrier to the country's membership of the European Community.

In the current national debate about future relations with western Europe, politicians of all the parties draw the line firmly at making any change that would involve Sweden in the making of an EC foreign and defence policy.

Even the leader of the pro-EC right-wing Moderates, Mr Carl Bildt, believes that Sweden must stay clear of alliances with other countries. "Our neutrality is a fact of geography, because of our closeness to Russia," he argues.

In the opinion of Mr Pierre Schori, state secretary at the Foreign Ministry and one-time adviser to the late Olof Palme on foreign affairs, his country's neutrality is "an all-weather policy" that makes sense at times of international calm as well as crisis.

In fact, the meaning of neutrality in Sweden remains highly pragmatic and subjective, contained neither in the constitution nor in any international treaty. "Neutrality is what we say it is," says Mr Schori. But, for many Swedes, it has hardened into an unquestioning dogma, which puts a serious barrier on the limits of the discussion about the country's European future.

It is true that both the main opposition parties – the Moderates and the Liberals – have expressed their support for eventual EC membership, while at the same time defending the country's neutral status. Mr Bildt, for one, wants to test whether neutralism is really seen in Brussels as an obstacle to entry. Much will depend on how Brussels eventually reacts to neutral Austria's formal membership application last summer.

Sten Andersson: an Ostpolitik

However, if neutrality turns out not to be an impediment, Swedish sceptics believe other difficulties will bar the way forward. Indeed, there is a suspicion many are using neutrality as a pretext to cover other reasons why they do not want to see Sweden join the EC.

Certainly this remains true of powerful forces inside the country's Labour movement, who are deeply concerned at the whole process of Swedish convergence with the EC. The blue-collar union confederation, the LO, raised many eyebrows late last year with a frontal attack on the EC, making it very clear that neutrality was not the only problem blocking the road to Brussels.

LO leaders warned that the integration process might mean the loss of Sweden's own power of decision-making and threaten the cherished achievements of the Swedish Model, particularly the existence of full employment, the welfare state based on universalist principles of public provision and high taxation, as well as the major influence acquired by the trade unions in the management of the economy at national and company level.

To the LO leadership, Sweden's movement towards the EC would mean creating a more acquisitive, individualistic market capitalism that would destroy the equality and social justice built up over the past 40 years under Social Democratic domination.

Such prejudices reflect a deep feeling, particularly among Sweden's public sector trade unions, who believe the achievements of the so-called People's Home will somehow be lost if the country comes in from the cold and joins the EC. The Communists share this opinion, regarding the EC as little better than imperialism.

Most of the Greens also regard the EC as a wicked conspiracy to pollute the continent, while the Centre party remains the repository of Swedish kitsch nationalism, anxious to protect the country from what it sees as sinister continental habits like cheaper alcohol and food.

But attitudes inside the Labour movement are much more complex than such hostile feelings might suggest. The LO is realistic enough to accept that it cannot possibly isolate Sweden from European industrial trends, and that the trade unions have to adjust themselves to the new realities in western Europe if they want to provide a more effective counter-weight to the drive in Swedish industry to mergers and acquisitions as well as investment opportunities inside the EC.

Indeed, a growing number of Swedish union leaders, with members in the exposed private market sector of the economy, feel that Sweden has really no alternative but to move ever closer to the EC. They are alarmed by the rapid Europeanisation of Swedish business, which is taking jobs and investment out of their own country through the creation of strategic business alliances. The classic example of Asea-Brown Boveri, formed in 1987, has not yet been repeated, but hardly a day goes by without further evidence that Swedish companies are pursuing European strategies.

Belatedly, the Swedish unions are having to react to this dramatic development.

Both the LO and its white-collar ally the TCO are taking a leading part in the work of the union body that covers the main union organisations in the European Free Trade Association (Efta) as well as the Nordic Council. Last month they all met in Stockholm to draw up a programme of demands for inclusion on the agenda in the forthcoming Efta-EC talks on the EES which stressed the need for full employment, defence of trade union rights, the preservation of the public welfare system and a good environment.

But the Swedish trade unions have also been keen to extend their collective influence into the EC itself. Last year the LO opened a Brussels office with the TCO, to provide a lobbying and monitoring role; while both bodies continue to play an important role in the activities of the Brussels-based European Trade Union Confederation, which has increasingly been concentrating its resources on EC questions. Through this widespread and complex network of personal and organisational links, the trade union wing of the Swedish Labour Movement has become intimately involved in trans-European developments.

A key union in the process of Sweden's EC adaptation is the Metalworkers, for so long the main creative force inside the LO. The union's president, Mr Leif Blomberg, argued recently that "the EC question must not become a symbol for right-wing forces who want to adjust Sweden to the most conservative EC countries". Instead, he maintained, "It must develop its own competitive profile in an integrated western Europe", adding that "we must not imitate countries who base their competitive power on high unemployment and social injustice".

For its part, the ruling Social Democratic party has moved very slowly in its attitude towards the EC. No major change in the present policy seems likely when the party Congress meets in the autumn to draw up its programme for the 1991 general election and beyond. But the Government is committed to a fairly wide-ranging strategy of Swedish adaptation to the EC's internal market which, under a bipartisan formula accepted in the summer of 1988 by a majority of the parties in parliament, requires the country to integrate with the EC in every area except defence and foreign policy.

The Social Democratic party has moved slowly in its attitude towards the EC

Ministers remain optimistic that the Efta route will lead to the creation of the European Economic Space, giving Sweden all it really needs to safeguard its prosperity. Certainly there is no likelihood of any need for a fundamental reappraisal of this strategy at least until 1993.

For time being, the main Swedish employer organisations seemed prepared to accept this. They have so far avoided any open advocacy of actual EC membership, even if most of their larger corporate members believe eventual entry is inevitable.

SAF, Sweden's equivalent of the Confederation of British Industry, is perhaps over-conscious about its role as the LO's central partner in the Swedish Model to question the prevailing orthodoxy. But, under the presidency of Mr Ulf Laurin, this attitude could change when SAF holds its conference in November. A more aggressively pro-EC position cannot be ruled out by SAF, while the Federation of Swedish Industries may also harden its views along with the engineering employers in VF.

To the intense annoyance of many Swedes, the recent flurry of forecasts of what the map of Europe will look like by 2000 have placed their country into close association not with the EC but with the Baltic states and the eastern countries like Poland and Czechoslovakia. In fact, Sweden has little in common with those economies. As the former finance minister, Mr Kjell-Olof Feldt, pointed out recently, Sweden has benefited from having a "very dynamic and aggressive capitalism" to complement its advanced social welfare and huge public services sector.

However, there is a serious danger that Sweden will slowly fall behind the rest of Europe if it does not revise old attitudes. As Mr Feldt acknowledges, many Swedes have far more empathy with Third World countries like Nicaragua and Vietnam than they have with those in the EC or in eastern Europe. Sweden has regarded itself as a United Nations country, not a European one. Certainly, foreign minister Sten Andersson feels more at home hosting Yasser Arafat, of the Palestinian Liberation Organisation, and Walter Sisulu, of the African National Congress, in Stockholm than taking a close concern in EC diplomacy.

This is starting to change, but very slowly. Recently Mr Andersson revealed an Ostpolitik for Sweden, and the impetus for an agreement with the EC through Efta is speeding up. The lack of any common experience of the suffering that devastated European civilisation twice in the early part of this century makes it hard for many Swedes to feel any instinctive sympathy with the forces that are building the new Europe. But, among younger Swedes especially, there is a stronger identity than there used to be with the continent, with signs of a revived interest in Germany, which before Nazism was the spiritual home for many in Sweden.

A recent public opinion poll revealed that seven out of 10 Swedes expect that their country will belong to the EC by the end of the decade. Some observers remain doubtful. After all, it would mean making a commitment to the continent of Europe that Sweden has avoided since its days of Empire ended in the eighteenth century.

But, if the alternative really does mean falling living standards and a sense of exclusion from the decisions that will shape the Swedish economy, most Swedes will – as they have done so often in the past – combine their self-interest with their ideals, and join the wider European reality.

Robert Taylor

Finland must examine its Soviet treaty

DURING 72 years of independence, geography has taught Finland that pragmatism is an important condition of survival.

Officially, it wants to help develop, and to be an integral part of, the Single Market as an Efta nation, through European Economic Space (EES); yet an interesting challenge awaits, in foreign competition.

Geography and geopolitics have made Finland one of western Europe's most insular countries. Its distance from the rest of western Europe has not been a negative factor, however: it has allowed Finland, during the past 40 years, to build the basis of a successful economy, with little outside competition.

Dependence on western Europe as a trading partner illustrates Helsinki's need to be part of western Europe's integration process. In 1989, 64.3 per cent of the country's exports were destined for the EC (44 per cent) and Efta (20.3) markets, while imports from western Europe totalled 68.5 per cent.

Low spot-market oil prices continued to undermine antiquated Finnish-Soviet semi-barter trade, which accounted for 25 per cent of all Finnish trade in the early 1980s. Last year, exports to the USSR accounted for 14.5 per cent, and imports from the USSR 11.4 per cent.

Some industrial authorities, like Mr Eric Forsman, an EC specialist who works for the Confederation of Finnish Industries (CFI), stress that Finland will not only respect the four freedoms enshrined by the Single Market, but seek to harmonise Finnish laws, in two to four years after 1993, so that they faithfully comply with EC legislation.

"The relationship between industry and politicians is very close in this country. Opening up Finland's markets to European integration will be positive, since it will increase competition, force companies to diversify, upgrade efficiency and help cut overheads. The consumer will benefit from this situation," said Mr Forsman. "We want to remain and be part of the development of [western] Europe. We cannot break away from such a reality, because this would affect our economy greatly."

Mr Forsman takes a realistic view of 1992, and expects that integration will ensure and not hinder Finland's economic prospects. He feels that no public debate about integration with western Europe is needed in his country, because "there is no reason to debate such a transparent issue".

Others, like Dr Esko Antola, who heads the Turku-based Institute for European Studies, believe Finland cannot afford not to debate the effects of 1992, because of the far-reaching consequences.

He feels that the EES does not ensure that Efta countries like Finland will be able to influence decision-making in Brussels. For this reason, Dr Antola says Finland must make clear whether it seeks associate or membership status with the EC.

Integration with western Europe tops the foreign-policy agenda

Top of the foreign-policy agenda is integration with western Europe, and policy-makers have been busy travelling between Helsinki and Brussels. One of Finland's most intelligent politicians, Mr Erkki Liikanen, of the Social Democratic Party, will resign as minister of finance at the end of this month and take over as ambassador to the EC in September.

The Right-Left coalition government has given two parliamentary briefings on EC integration, after which a second White Paper was put out in November. Next month, a third briefing will lay the groundwork for a parliamentary committee to handle the issue of EC integration.

Finland has been slow in taking an attitude towards western European economic and political unions. It joined Efta as an associate member in 1961, but it was 14 years before it decided to become a full member. The approach to the Council of Europe was similar – Helsinki felt the council was too vocal about human-rights abuses in the Soviet bloc, and Finland was the last western European nation (apart from the principalities of Andorra and Monaco) to join, in 1989.

Even if it wants to be an part of the integration process within the EC, Finland does not desire membership of what it still sees as a political organisation that would undermine its neutrality and impede friendly relations with its giant neighbour, the Soviet Union.

One of the consequences of its down-to-earth approach to foreign policy is that public debate on these issues has been minimal. Finland's unique circumstances have given it a solid front when dealing with foreign policy questions, which have not been characterised by sentimental treaties.

Even if it is in Helsinki's interest to be a part of the Single Market in the future, strong nationalist sentiment may provide quixotic obstacles. The most vociferous opponent of integration with western Europe is Mr Keijo Korhonen, a former adviser to prime minister Harri Holkeri and now editor-in-chief of Kainuun Sanomat, a daily paper published in Kajaani, 567km north of Helsinki.

Mr Korhonen made a demagogic proposal last month by suggesting a referendum, so that Finns might decide whether they wanted foreigners to buy their land or own their companies, and whether Finland wanted to give up its neutrality.

The Kainuun Sanomat editor-in-chief has close ties with the with the opposition Centre party, which has its power-base in rural Finland; and the party, which was in government for some 50 years until 1987, has opposed foreign ownership of real estate and of Finnish companies in some key industrial sectors.

Considering the ever-present dangers of nationalist fervour and Helsinki's willingness to integrate with western Europe through the EES, it would seem in the best interest of government and industry not to bring up the sensitive topic of integration for public debate.

Finland's foreign population is minuscule, a mere 20,000. There are also implicit archaic restrictions that forbid foreign companies to establish themselves in the key sectors of the economy, which include real estate, mining, forestry and oil refining. Although these restrictions may be relaxed in the future, outside ownership of forests, the country's economic backbone, is a hypersensitive issue among Finns.

Mr Matti Vanhala, a director at the Bank of Finland, believes that, as far as national financial markets go, 1992 and recent steps to lift restrictions are "a convenient coincidence". He adds: "Since capital markets have been small in the past, it was only last year when we enacted security market legislation. Capital regulation and prudential norms are also beginning to be implemented in this country."

While Finland's policy towards its financial markets has been to liberalise and to avoid regulatory mechanisms, Mr Vanhala believes that any lifting of exchange controls depends on the outcome of EC-Efta talks.

Erkki Liikanen: off to the EC

In October, Finland's integration aims were given impetus by the visit to Helsinki of Mikhail Gorbachev, the Soviet president. Mr Gorbachev not only recognised Finland's neutrality, but had no objections to Helsinki's joining the EC if it so wished.

The challenge that 1992 has set Finland (and which perestroika and democratic reforms in eastern Europe have encouraged) will mean increased debate about sensitive issues like the 40-year-old treaty of Friendship of Co-operation and Mutual Assistance (FCMA) with the Soviet Union. In a bold move, Dr Risto Penttila, a researcher in international relations, suggested that this should be replaced by a new agreement, which would stipulate that Finland would defend itself from all outside aggression.

The FCMA, which was renewed for a further 20 years in 1983, requires the countries to come to each other's military rescue if either is attacked by Germany or an ally.

Decades of cold war and a difficult balancing act between two hostile powers have hindered Finland's search for a long-lasting place in the of western European community. Capitalistic Finland has seen itself as a bridge between East and West – but has not had the luxury of seriously pondering who it is that is on that bridge.

Opening up the economy will undoubtedly mean problems, especially for those sectors that depend heavily on net sales from the local market. Finland's economy relies substantially on its forest, metal and machinery industries, which jointly accounted for 65.4 per cent of the country's total FM99.8bn (£14.9bn) export earnings in 1989.

Lack of industrial diversification and a small (4.9m) population continue to be a source of anxiety as 1992 approaches. But many Finns are confident that the coming decade will see these problems addressed positively.

Enrique Tessieri

THE NORDIC COUNTRIES 3

... These two pages examine the concerns and the expectations of each — and also consider their Nordic neighbour in the EC ■

The shadow of 1972 still haunts Norway

Mrs Kaci Kullman Five (right), who leads for Norway in the Efta-EC negotiations, remembers with dread the bitter conflict at the time of the 1972 referendum

The issue of Norwegian membership of the EC will not go away, says ROBERT TAYLOR, and we can expect to see important changes in the attitudes of the main political parties during the next three years

THERE IS no national mood in Norway in favour of an early application to join the EC, but by the time of the next general election, in September 1993, the question is expected to be at the top of the political agenda.

For the time being, Mr Jan Syse's shaky centre-right coalition government, which took office last November, is intent on giving its full support to the Efta-EC negotiations on the creation of the European Economic Space.

Certainly, there is little room for manoeuvre in the Cabinet on the EC question. The small Centre party, an important partner in the coalition, campaigned last autumn against the EC; and, as the voice of Norway's rural interest, it is not even keen on the idea of a customs union between Efta and the EC.

However, as Mr Kjell Bondevik, the country's foreign minister and leader of the Christian Peoples party, told the Financial Times: "There is a continuity in our policy with that of the Labour government. This is not the time to change our attitude."

His caution is understandable. The latest opinion poll on the EC question found that 39 per cent of those asked were opposed to Norway's joining the EC, and 32 per cent were favour, with the rest not knowing what they want. Indeed, the Norwegian parliament is believed to have more members hostile to EC membership than its predecessor. Moreover, under the Norwegian constitution, it will require a two-thirds majority to approve of the country's membership of the EC. And the political parties seem reconciled to the need for a referendum to settle the issue as well.

"There is a scepticism among the voters about supra-national bodies such as the EC," admits Mrs Kaci Kullman Five, the trade minister, who leads for Norway in the Efta-EC negotiations. Like her political colleagues she remembers with dread what happened 18 years ago, when Norway last debated the issue of EC membership. The 1972 referendum, in which 53.5 per cent of the voters said No to the EC, with 46.5 per cent against on a 76 per cent turnout, came as a shattering blow to the country's political and industrial establishment. It is still seen as a nightmare by Norway's leading politicians — an experience that they have no wish to see repeated.

The division at that time, over whether the country should join or reject the EC, split families in bitter conflict, and the personal animosities were to last for many years. Mrs Five remembers being spat on by old ladies in the streets of Oslo when, as a student, she campaigned for a Yes vote; and on campus she could not even wear a Yes badge on her lapel for fear of harassment. She talks of those times as a national "psycho-drama".

All the main political parties were divided by the pros and cons of Norwegian membership of the EC in 1972, but it was Labour that suffered most of all. The split in the Labour movement led to the formation of the Left Socialist party, which helped to push the Labour party below the psychological barrier of 40 per cent of the voting preference. The weakening of Labour's position in Norwegian politics really dated from the events of 1970-1972.

Understandably, most Norwegian politicians prefer to tip-toe around the EC issue, for fear of stirring up those divisive feelings again. Mrs Five recalls that, in 1988, she played a prominent part in a Conservative-party review of the EC issue, which clearly pointed to a Norwegian application. "The study provoked such an outcry that our leader at that time, Kari Willoch, phoned me and said drop the whole thing at once," she says.

However, two years ago her present leader and now Norway's prime minister, Mr Jan Syse, committed the Conservatives to the cause of the EC. But the price he has had to pay, to try and govern in the present four-year period until the 1993 general election, is to drop that demand from the political agenda.

But the issue of Norwegian membership will not go away. We can expect to see important changes in party attitudes over the next three years. The leader of the Labour party, Mrs Gro Harlem Brundtland, has so far moved carefully over the question, anxious to avoid any unnecessary revival of the old animosities; but many in the leadership believe Labour will be committed to making a further attempt at EC entry in its next electoral programme.

The populist right-wing Progress party, under the charismatic Mr Carl I.Hagen, has tended to take a rather opportunistic view of the issue; but Mr Hagen is on record as being in favour of a Norwegian application as soon as possible, leaving it to a people's verdict in a referendum. However, Progress has a broad appeal across the spectrum in an alliance of the discontented, and it is reluctant to embrace an issue that could seriously divide its own supporters.

The Left Socialist party has displayed suspicion about the whole EC venture, often regarding it as little more than a capitalist conspiracy, but its ideological attitude may well be changing. Since the autumn, its leader, Eric Solheim, has begun to take a more pragmatic and sympathetic view. His party is keen to stress its credentials as a European party with close contacts in both west and east, particularly among groups like Charter 77 in Czechoslovakia and New Forum in East Germany.

For the Christian Peoples' party, the EC remains a divisive question, but its leader Mr Bondevik acknowledges that it will have to re-examine its attitude by 1993.

What concerns all the party leaders is the danger of a resurgence of the kind of Norwegian nationalism that fuelled the anti-EC referendum campaign in 1972. Among the affluent middle class of the Oslo region, the EC holds no fears; but in the Bible belt, along the west coast, and in the remote north of the country, in areas like Finnmark, Norway's convergence with the EC is still often regarded as a threat to a settled, comfortable and insular way of life, with fears that Brussels will ruin the fishing industry and insist on the end of subsidisation by Olso for the poorer areas.

There is also an important gender difference in attitudes to the EC. In polls, only around a third of women questioned say Yes to the EC, compared with nearly half the men.

The underlying attitude of most Norwegians cannot really be taken for granted on a question of national sovereignty. Many believe their position is different from that of other people in Europe. The country's recent history has certainly provided potent emotional arguments for Norway's remaining outside the EC. It is often unappreciated by foreigners that Norway is a relatively new country, which won its independence from Swedish domination as recently as 1905, and lost it brutally during the Nazi occupation of 1940-45. As a result, many Norwegians often display a strong wish to defend the principle of self-determination.

Norway also regards itself as more of an Atlantic than a European country. It looks west, away from the Nordic region, and not south towards the continent. As a maritime people, Norwegians see their security in the last resort bound up with that of the US, not the rest of western Europe — which is why many believe that, if the North Atlantic Treaty Organisation were ever to break up, Norway would make a bilateral defence treaty with the Americans.

Prof T.K.Derry, in his history of Norway, published just after the referendum result in 1972, put his finger on the problem. "As a people of the far north," he wrote, "the Norwegians have acquired from the physical conditions of their existence a special respect for the qualities of individual self-reliance, and stubborn loyalty to ties of neighbourhood and calling which were developed as the labours of many generations built up the 'thousand homes' of their national anthem. As a very small people, they have learnt to consider national independence to be the *summum bonum*."

Yet that sense of being a people apart should not be carried too far. Norway is just a member not just of Nato and the Council of Europe; it has observer status in the Western European Union, and holds regular meetings with the EC commission at the start and end of each six-month EC presidency.

Unlike Sweden, Norway has no time for neutrality and has therefore been able to develop an associated relationship with the so-called European Political Co-operation process (EPC) of the EC, which Mr Syse told EC President Jacques Delors, in a visit to Brussels last month, he wants to see strengthened still further.

Nobody in Brussels or Oslo doubts that, if Norway seeks *EC membership after 1993, its* application should raise no serious difficulties. Whatever happens in the 1990s, Norway will have to readjust to the dynamic of economic and political integration in western Europe; and, as the EC's ambassador in Oslo, Mr Aneurin Hughes, keeps telling the Norwegians, there is no good reason to assume that, as a small nation, they will lose their identity or sacrifice their well-being by joining the EC.

Privately, most of Norway's political leaders accept that. But they still have to embark on a major exercise to convince the majority of their voters that this is so. The shadows cast by 1972 still haunt the Norwegian scene.

Problems taxing the Danes

DENMARK, as the only Nordic country in the EC, may have none of the practical problems of its northern neighbours in adjusting to the realities of post-1992 decision making of the European Economic Space, but it has enough headaches of its own in merging its high public spending welfare system into line with the rest of the inner market.

This may help to explain why Danes are among the least enthusiastic EC members, and still elect anti-EC members to the European Assembly.

The country's high level of taxation may be in line with the rest of the Nordic region, but it is far above the EC average, and any future harmonisation could force Denmark to change much of its generous welfare state.

Poul Schluter's centre-right government is carrying through a massive restructuring of the tax system, to bring Denmark more into line with the rest of the EC, at least in the amount of tax paid on incomes and capital; but the problem of harmonising indirect taxes will prove more difficult.

The Danish industrial structure of small companies, concentration on low technology exports, a low level of research and development, are also causes for concern about the 1992 challenge.

But the pessimists may be confounded. Denmark's economy over the past 12 months has begun to improve, and the EC stimulus could *bring a fresh injection of* investment activity and restructuring in the industrial sector. The wave of banking mergers and acquisitions in recent months, in preparation for 1992, could be a useful pointer to what will happen elsewhere in Denmark's industrial structure.

The success or failure of Denmark as an EC member is bound to have an impact on its Nordic neighbours. Their hopes or fears will be tested in what will happen to the Danes in the next few years. Denmark may be a harbinger of what the rest of the region might expect from the 1992 realities.

Robert Taylor

■ The industrial and financial implications: Much of the Nordic countries' trade is already with European Community members . . .

Norway will liberalise rules for ownership by foreigners

IN HIS youth, Mr Arve Thorvik was a passionate opponent of Norwegion EC membership. Today he is the vice president, international division, of the Confederation of Business and Industry (CNBI), which is lobbying for membership.

In the short term, Mr Thorvik is charged simply with ensuring that Norwegian companies remain competitive

From KAREN FOSSLI in Oslo

when the community's internal market is established.

Currently 56 per cent of Norway's traditional exports – worth NKr51bn (£4.6bn) in 1988 – go to the EC.

Mr Thorvik would prefer that Norway was able to exert "real" influence over EC decisions that will affect business conditions within the community for his members after 1992, and is therefore among the growing number of Norwegians who have been converted to the idea of EC membership. He believes his views reflect a national change in outlook since the 1972 EC referendum.

The CNBI, which was formed only a year ago, from several industrial federations, serves the economic and political interests of over 10,000 industrial, trade and service enterprises. Member companies employ approximately 400,000 of Norway's 2.1m workforce (the population is a mere 4.2m).

Privately, some CNBI members have expressed frustration over the its failure to state clearly that EC membership is imperative. They fear that an EC-Efta treaty is not enough to secure their future competitiveness within the EC, because companies in EC countries will receive preferential treatment.

Svein Aaser, chief executive of Hafslund Nycomed, Norway's second largest publicly-quoted company, which has main interests in pharmaceuticals, is sceptical about Norway's "having to take a detour" through the establishment of a joint EC-Efta Economic Space before membership can be achieved. His company in 1989 invested between NKr1.5bn and NKr2bn in EC-based companies, and is one of the few Norwegian companies strong enough expand out of Norway.

Mr Aaser pulls no punches when it comes to the future of Hafslund. If necessary, he has said, he would have no qualms about shutting up shop in Norway and moving into the EC. For the time being, he has sought to avoid this through various EC-based company acquisitions or liaisons.

"Restructuring of Norwegian industry is absolutely necessary to create stronger entities, though current concession laws on ownership will have to be revamped to reflect a more international orientation," he said.

Torvild Aakvaag, chief executive of Norsk Hydro, Norway's largest publicly-quoted company, agrees, in that he feels one of the main challenges to Norwegian industry

The head of Norway's largest publicly-quoted company feels that a main challenge to industry is a sensible restructuring, to strengthen competitiveness before 1992

is a sensible restructuring to strengthen competitiveness before 1992.

"For Norsk Hydro, we have established several positions within the EC as a way to improve our ability to compete after 1992," he explained. In the period 1984 to 1988, Norsk Hydro invested NKr8.5bn in companies based in EC countries to underpin its future there.

Mr Aakvaag, too, is calling for a revamp of Norway's policy towards ownership.

But Mr Thorvik is sceptical about fears that Norway will fare poorly as a result of an EC-Efta treaty. One of the many EC working groups within his charge is occupied solely with judging the implications of the community's 70,000-page *acquis communautaire*, and liaises directly with Norwegian government negotiators.

"There is only one organisation – excluding political parties – of a certain strength in this society right now which has taken a clear stand on membership," said Mr Thorvik. "But our [CNBI] position is twofold. A long-term [for the next few years] goal is for membership. But in the short-term it is the EC-Efta process.

"We have a three-track approach: selling membership to the Government and parliamentarians; [secondly] the Efta approach is a fact which we cannot wish away, and it is also the Government's approach – and we must not rule out the possibility that it will succeed. The third is monitoring the EC, so that we can adapt to its new directives," he explains.

Recently, the Government announced its intention to liberalise ownership rules. Foreigners may now own up to 33 per cent of a Norwegian company. In addition, tax rules are to be reformed to encourage investments in business in industry.

"How can we expect free access for establishment in the community if we restrict access for establishment in Norway?" asks Mr Thorvik. "We must adapt the community competition policy as liberally as possible. Our concern, however, is that the Government wants full and equal access to the EC. That's all nice and fine, but the message from the EC is that 'you cannot travel first class on a European train with a child's ticket' – i.e. you should not expect all the benefits while remaining outside."

The old Norwegian argument of loss of sovereignty was no longer valid, he said. "Sovereignty hasn't worked for us in many ways – remaining outside the community, Norway has not managed to preserve its fish resources; it hasn't helped avoid environmental problems; it hasn't helped preserve our districts or regional policies – in these respects we are no better off than most community countries."

Yet Mr Thorvik felt that the Government's scrutiny of the *acquis communautiere* was too quick. "It has a speed which is almost scarey. For we might so easily go wrong somewhere. This is the most complicated trade negotiation of modern times.

"If we were negotiating membership it would be a matter of just accepting the acqui, but here what we are seeking to do is find out the relevant parts of the acqui on which negotiations will be based. We do not want a reaction within the EC to be created whereby they believe we are not willing to play the full game.

"For us, membership is the next logical step, though for other Efta members this is not necessarily the case. Therefore, the acquis is viewed differently by the individual Efta members. I think we must be ready to decide at some point that, if the EC-Efta process is not working, we will jump the Efta train and go straight to Brussels before the community loses interest in new members."

However, Norwegian business and industry is not leaving much to political chance. Companies that are able are securing EC links. This is soon to be helped by the establishment of a database, to be administered by the Export Council of Norway, which will provide information about EC-based companies with whom they could form links.

According to figures from Exportfinans, the export financing institution of Norwegian commercial banks, in 1987 it funded some NKr570.3m to Norwegian companies for the establishment of links with EC-based companies. The figure fell to NKr445.4m in 1988 and to NKr100.1m last year.

The Export Council says that, by 1986, Norwegian companies owned at least a 10 per cent stake in 209 EC-based industrial companies. In 1987 the figure climbed to 396, but slid to 322 by 1988. For EC-based service companies the figures are 485, 537 and 719 respectively.

Forest mergers forecast

IT DID not take long for Finns to get a preview of how 1992 would change the face of the country's forestry industry.

Metsä-Serla, one of Finland's largest forestry groups, surprised everyone last month by aggressively biting into United Paper Mills (UPM), the country's fourth largest.

Mr Niilo Hakkarainen, managing director of UPM, expressed dismay at Metsä-Serla's acquisition of around 30 per cent of his company, and that such a stake could be purchased for the investment cost (FM1.5bn to FM2bn) of one paper machine and a structure to house it.

From ENRIQUE TESSIERI in Helsinki

A Finnish sawmill: foreign ownership is restricted in the forestry sector

Metsä-Serla had the capital to take a chunk of UPM, since it lost a battle with Fletcher Challenge, of New Zealand, last December for UK Paper, the leading fine paper group purchased from Bowater Industries four years ago.

Only two months ago, when Mr Jukka Härmälä, president of state-owned Enso-Gutzeit, a leading forestry group, pondered over the effects of 1992 on Finland's forestry groups, he felt that the country's 11-odd forestry companies would merge into four big ones, which would include Enso-Gutzeit, Metsä-Serla, UPM and Kymmene.

Even if Metsä-Serla's new stake in UPM suggests that Finland may end up with three large forestry groups, the acquisition was significant, considering that UPM belongs to the sphere of influence of Kansallis Osake Pankki (KOP), one of Finland's two largest banks, and Metsä-Serla which belongs to Agricapital.

An antiquated Restricting Act, passed in 1939, has been mainly responsible for preventing foreign companies coming to Finland.

One of the areas where foreign ownership or competition is restricted is the forest-based industry, as well as in securities trading, mining, refining, among others.

Although a committee has been set up by the Government, to bring the Restricting Act up to date, the general consensus in the forestry industry is that, since the sector is so developed, acquisitions by foreign companies are unlikely to happen in Finland but moreso in continental Europe.

Even if major banks in Norway, Sweden and Denmark have been merging in order to increase volume, Mr Jaakko Lassila, president of KOP, believes that no such scenario will unfold in Finland.

"I do not see any reason for Finnish banks to merge," said Mr Lassila. "It is unlikely that foreign banks will come to Finland, since the country is so over-banked."

Especially during the last decade, Finnish companies have been active in purchasing companies in three market areas: the EC, Efta and the US. Investments by Finnish companies globally have grown from FM2.07bn in 1985 to FM11.79bn in 1989.

Of these, FM4.67bn was invested in the EC; FM2.92bn in Efta countries; and FM3.34bn in North America (FM2.46bn in the US). Likewise, foreign investment in Finland grew from FM1.15bn in 1985 to FM1.35bn last year.

Finland's increasing stake in western European comes from the urgent need to gain a foothold in the market and by increasing volumes by forming joint ventures, strategic alliances and even cross-ownership schemes in the future.

Considering the limited possibilities that the national market can offer, oligopolies like the wholesale-retailer Kesko, Finland's second largest company, are seeking strategic alliances outside Finland. It is not clear whether these alliances aim at limiting competition.

Haka, the largest construction group, is also taking important steps at forming strategic alliances that would involve cross-ownership. Mr Pertti Naulapää, president of Haka, stated that "this grand alliance would involve European and US construction companies, and its aim would be to co-operate and offer market possibilities with respect to their area of specialty."

Neste, the state-owned oil and chemicals group, is one of the companies to suffer most from increased liberalisation, because it holds a monopoly on oil imports to Finland and runs the country's only two refineries.

Around 45 per cent of Neste's net sales last year were generated from its oil trading and supply operations. Since oil plays an important politico-economic role in Finnish-Soviet semi-barter trade, it will be interesting to see how 1992 will effect this trade.

Nokia, Finland's largest listed group, has, in the past years, expanded into international markets, and today receives around 67 per cent of its net sales from its international operations. Having grown too fast without consolidating, Nokia has been forced to divest, streamline and restructure its operations to create a healthier basis.

Consumer electronic groups such as Nokia, as well as other national companies that receive the bulk of their net sales from abroad, are the least worried about the opening up of the national economy which 1992 will encourage.

The late Mr Kari Kairamo, ex-chairman and chief executive of Nokia, who died in 1988, was a far-sighted industrialist whom many still miss. He was largely responsible for spearheading a campaign to coax the Government to join the Council of Europe in April 1989.

Mr Simo Vuorilehto, chairman and chief executive of Nokia, believes that his group will be able to survive in the future only by being "the best or near best in its field".

"The internationalisation of industry has to be accepted on a spiritual level. Internationalisation does not occur if we take an opportunistic attitude by venturing to 'pick the raisins from the [EC] bun', as one politician once said.

"I have said that the concept of national patrimony is in between people's ears. It is not important who who owns the company, as long as it is a European company," Mr Vuorilehto added.

... FT writers in three capitals discuss the opportunities that will arise and the problems that must be faced as 1992 approaches ■

Single Market changed Swedish priorities

SWEDEN MAY not be a member of the European Community, but Sweden Inc is.

The question of whether Sweden should join the EC is no longer a matter of great concern or much relevance for the country's biggest companies. They have acquired *de facto* membership by investing heavily, buying companies and building factories, in the 12 EC countries.

Swedish corporate interest in the EC would appear to be natural, because the community

From
JOHN BURTON
in Stockholm

consumes half of Sweden's exports. But only five years ago, Swedish executives were funnelling more investment to North America than to western Europe. It was the decision by Brussels, in 1985, to create the Single Market that caused the priorities of Swedish business, in its global strategy, to be revised.

The jump in direct investment in the EC has been particularly noticeable in the last few years. While Swedish companies invested only SKr4.1bn (£396m) in the EC in 1985, spending soared to SKr25.8bn in 1988, accounting for 58 per cent of all Swedish direct investment abroad, according to Sweden's central bank.

The figures, moreover, understate the true extent of Swedish corporate investment in the EC, as the Bank does not take into account profits reinvested by the EC-based subsidiaries.

The increased Swedish corporate presence in the EC, which now is home for half of the Swedish multinationals' overseas production and employment, reflects both hopes and fears surrounding 1992 and its consequences. The Social Democratic government's stubborn refusal to apply for EC membership has been a key factor forcing Swedish companies to establish more production facilities within the community in order to avoid possible future trade barriers.

Swedish companies also believe the internal market will improve sales opportunities. Ericsson and ASEA Brown Boveri (ABB), for example, predict that the deregulation of government procurement will boost their chances of winning orders for telecommunications and power transmission equipment. In addition, Swedish executives are responding to the same factors that are discouraging foreign investment in Sweden. These range from Sweden's small domestic market to its remote geographical position on the periphery of Europe.

Moreover, the investment climate in Sweden is showing signs of deterioration. Wage growth is accelerating due to a shortage of skilled labour. Economic growth has slowed, while productivity has virtually stagnated. Worker turnover is high and absenteeism has become a national scandal. Plans for the abolition of nuclear power have raised uncertainty about whether there will be enough cheap energy in the future.

While Swedish corporate investment is rising in the EC, it is also undergoing changes in terms of spending patterns. Industrial concerns remain the chief investors in the EC, accounting for two-thirds of capital expenditure, but their percentage is falling as spending in the financial sector and property markets climbs.

The abolition last year of Sweden's foreign exchange controls allowed the country's cash-rich insurance companies to purchase property abroad for investment purposes for the first time.

Skandia, Sweden's largest insurance company, three months ago concluded the country's single biggest foreign property deal by buying real estate and construction projects in London, Madrid and Lisbon for SKr4.2bn.

Swedish banks are also posed to step up their acquisition of banks within the EC, as part of the general trend towards the consolidation of European banking. The recent decision by the Government to lift the ban on foreign ownership in the country's banks will make it possible for Swedish banks to raise capital on European bourses in order to finance these takeovers.

Among Swedish industrial companies, most spending in the EC is directed towards production. But, as this expands, the re-location of research and development facilities from Sweden is likely to follow. Volvo, for example, now conducts 90 per cent of its research in Sweden. But it recently announced that most of its future research programmes will be conducted abroad. "We must be closer to our markets," explained Volvo president Gunnar Johansson. ABB's biggest research centre is now based in West Germany.

Since 1987, Swedish companies have also been concentrating more on gaining new production facilities through acquisitions and mergers rather than expanding their own existing ones within the EC. Companies from Sweden made the seventh largest amount of acquisition and merger deals, valued Ecu 1.37bn, in Western Europe in 1989, according to Translink's European Deal Review. Of this, 78 per cent, or Ecu 1.08bn, took place within the EC.

Most Swedish corporate takeovers last year occurred in the UK, totalling Ecu 587.5. Indeed, the UK has traditionally led the rest of the EC countries in attracting Swedish direct investment, although it was temporarily eclipsed by the Netherlands in 1988 as Swedish investors poured money into the booming Dutch property market.

The pace of investment activity by Swedish multinationals has guaranteed their continued access to the EC market. In a recent survey conducted by Swedish Metal Workers' Union about corporate attitudes to the EC, executives admitted that Sweden's non-membership presented few obstacles for them. The problems caused by non-membership were relatively minor, ranging from difficulties in gaining work permits for Swedes holding executive posts in EC subsidiaries to limited access to some of the EC's research programmes.

The Government's push to harmonise the country's laws and regulations with those of the EC are further reducing potential barriers, although the executives still worry about the lack of Swedish influence on decisions made in Brussels. Although Swedish multinationals have essentially bought their way into Community through direct investments, they could leave a shrinking industrial base at home.

Small and medium-sized companies do not have the financial resources to follow into the EC, and the hundreds of concerns that depend for their livelihood on sub-contracting work from the multinationals could wither as the industry giants continue to shift their activities to the continent.

The prospect of disinvestment represents a powerful argument for Sweden's joining the EC, according to business leaders.

"We could see lower investment and thus stagnant growth in our country if present policies on the EC continue," says Tom Wachtmeister, president of Atlas-Copco.

Mr Wachtmeister has indicated that Atlas-Copco could follow the example of such Swedish companies as ASEA, Tetra-Pak and IKEA in moving its corporate headquarters to the continent if Sweden remains outside the EC. The threat of a dwindling industrial base is also persuading some of the trade unions, such as the Metal Workers' Union, to push at least for closer ties with the EC, if not outright membership.

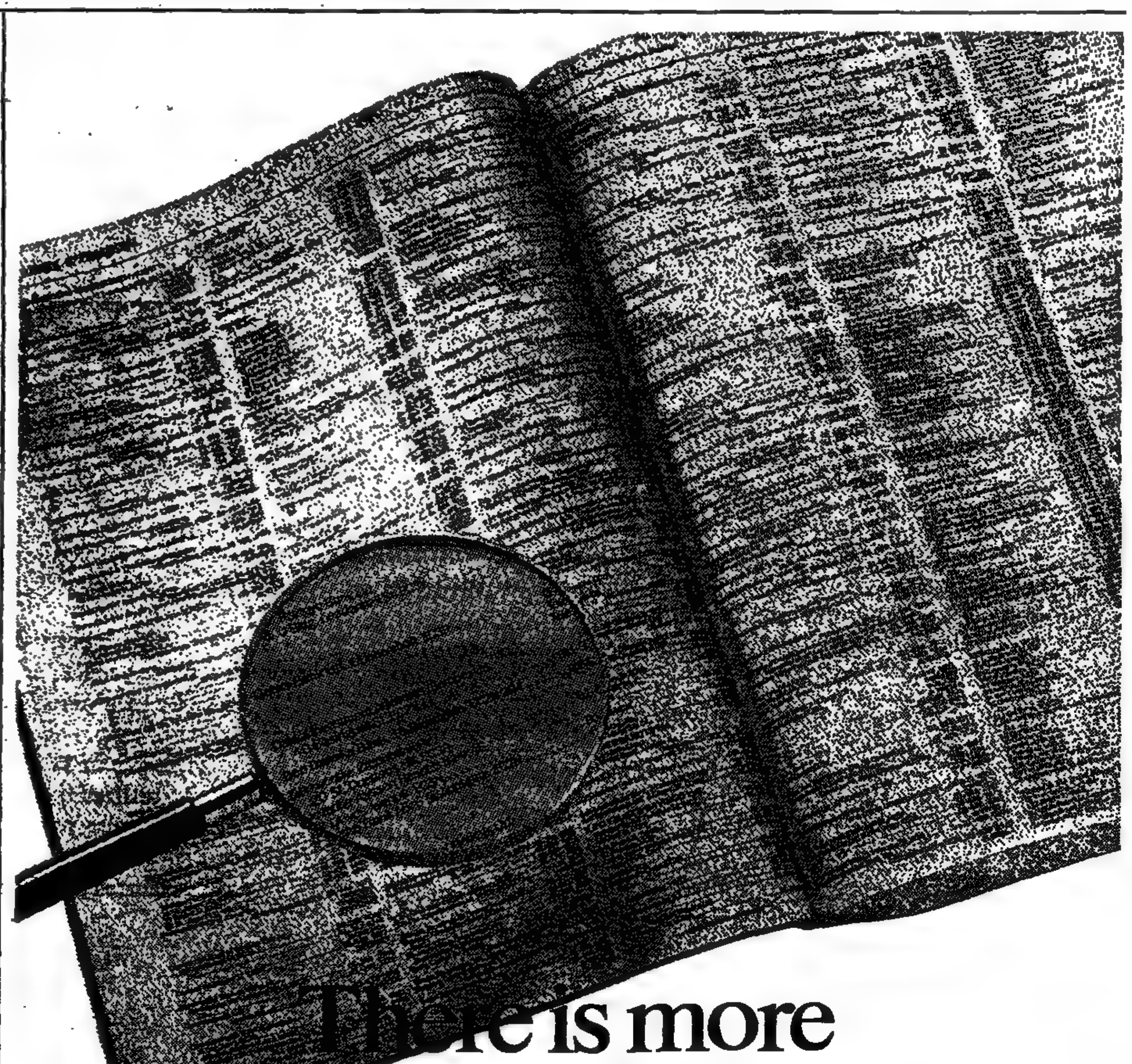
Proponents argue that EC membership would also provide other benefits. It would, for example, promote the freer movement of labour and thus help solve Sweden's shortage of skilled workers and ease pressure on wages.

A study conducted by the Swedish Federation of Industries predicted that Sweden's industrial growth rate in 1990s would be 4 to 6 per cent (double what is expected to be) if Sweden joined the EC, and it would boost exports by between SKr7bn and SKr9bn a year.

Swedish companies already have substantial investments in the EC: Volvo 440s on the robot welding line, at Born, in the Netherlands

M&As AND MAJOR INDUSTRIAL PROJECTS
undertaken by Sweden's leading companies in the EC during the last four years

ASEA BROWN BOVERI	
1989	40% stake in British Rail Engineering (BREL)
1988	50/50 joint venture company with Siemens in West Germany
1987	ASEA merges with Brown Boveri of Switzerland
ALFA-LAVAL	
1989	Acquires Eriksen & Grabe, West Germany
1988	Acquires Machinefabriek, The Netherlands
ATLAS COPCO	
1987	Constructs factory at Hemel Hempstead, UK
1988	Expands production facilities in Belgium
ELECTROLUX	
1987	Acquires white goods and kitchen equipment division of Thorn EMI, UK
1986	Acquires Zanussi, Italy
ERICSSON	
1988	Completes acquisition of Thorn-Ericsson Telecommunications
1987	Obtains 20% stake in French telecomms company CGCT
1987	Assumes complete control of Spanish subsidiary INTELSA
SKF	
1988	Establishes new sales offices in Holland and Belgium; expands production in UK and West Germany
VOLVO	
1988	Acquires Leyland Bus, UK
1987	Expands production facilities at Ghent truck plant, Belgium



As Efta and the EC seek a new economic relationship, **Robert Taylor** looks . . .

Through Space to the new Europe

IT IS hoped that the outline of the new economic Europe will be revealed to the 13th anniversary conference of the European Free Trade Association, in Gothenburg, in June.

Mr Jacques Delors, president of the European Commission, has agreed to attend, and so have the six Efta heads of government. It promises to be a memorable gathering.

Certainly, both Efta and EC leaders seem keen to establish a new more integrated relationship between their two economic blocks through the establishment, from January 1993, of what is being called the new European Economic Space (EES).

The Efta way to a wider Europe, through "osmosis" with the EC, is regarded by all the Nordic states, for differing motives, as the best possible interim solution to the problems they face with the arrival of the EC's internal market at the end of 1992.

Indeed, the impetus in Efta for such a development has come mainly from the Nordic states. Neutral Austria has assured fellow members that it is fully behind the current discussions with the EC; but it put down a marker for the future last summer, when it sent in a formal application to Brussels for full EC membership; while Switzerland has often appeared to be unsure of its commitment to the EES, because of its traditional concern for its sovereignty.

It is the Nordic countries that have invested the greatest degree of political capital in the successful outcome of Efta's current negotiations with the EC.

Efta has been a reactive organisation, ever since its birth in 1960 in response to the creation of the EC three years earlier. The 1972 and 1973 industrial free-trade agreements occured because of the enlargement of the EC to cover Denmark, Britain and Ireland; while the 1984 Luxembourg accord, with its vague commitment to the creation of the EES, came at a time when the EC was starting to develop the inner cohesion for its launch of the internal market commitment.

The latest bout of negotiations underlines that fact. After all, it was President Delor's initiative, in January 1989 in his speech to the European parliament, that provided the impetus for change inside Efta. His call for a new relationship between the EC and Efta, based on joint decision-making, stirred Efta countries to more decisive action.

What is not often realised is that this rallying call was encouraged by the then Norwegian prime minister, Mrs Gro Harlem Brundtland, and Spain's prime minister Felipe Gonzales. As respective presidents of Efta and the EC Council of Ministers for the first six months of 1989, both were keen to explore the possibility of integration between the two blocks. It is often forgotten that the March 1989 conference of Efta heads of government, in Oslo, was arranged on Mrs Brundtland's initiative before, and not after, Mr Delors's Strasbourg address.

During the past 12 months, the pace of the discussions has quickened, and this spring formal talks between Efta and the EC are expected to begin on the creation of the EES, in the hope that, by early 1991, a treaty will be ready for ratification which will have the force of international law.

While there are some genuine difficulties to overcome, prospects for a successful outcome have been helped by the exclusion of agricultural policy and taxation questions from the proposed EES.

The Efta members have already accepted much. All say they will implement the four basic freedoms of the EC's single market, covering the movement of goods, capital, labour and services. They also go along with measures in what are called the "flanking policy areas" related to research, education, transport, the environment and the social dimension. More immediately, the Efta countries recognise in principle that they will have to implement in their own legislation the existing EC rules and regulations, the so-called *acquis communautaire*.

The process of convergence between Efta and EC actually began five years ago, in the Luxembourg process which has already produced detailed agreement in areas like technical barriers to trade, public procurement and rules of origin. But now negotiations are deeper and broader in scope.

The Nordic countries have differing views of what might be accomplished. While Sweden still hankers for a customs union covering the EES which pre-supposes a common external tariff, Norway, for domestic political reasons, is content to create what is being described as "a fundamentally improved free trade area".

The hope is that, by early 1991, a treaty will be ready for ratification which will have the force of international law

Moreover, all Efta members have their own special concerns that they want to safeguard as exceptions in any EES treaty.

For Iceland, a satisfactory deal on fish is vital, which would ensure free access to the wider European market, while safeguarding Icelandic fish stocks. The Finnish government is keen to maintain restrictions to prevent foreign ownership of the country's forests. Norway, with its current high unemployment, wants to uphold some form of restriction on, and control of, labour immigration.

Mr Jacques Delors: his speech to the European parliament provided the impetus for change inside Efta, but his rallying call was encouraged by the then Norwegian prime minister, Mrs Gro Harlem Brundtland (inset)

As the head of Sweden's negotiating team, Mr Ulf Dinkelspiel, argues, the final outcome will depend on a balance between rights and obligations. But the EC will be keen to ensure the number of exceptions remains small. Brussels has no wish to sanction an agreement that enables Efta states to achieve all they want in an EES without shouldering any of the burdens carried by the EC as the price of membership.

It seems as though the Nordic states recognise this. Indeed, over a wide range of subjects there is likely to be relatively trouble-free negotiations. This appears to be true of: the standardisation of rules on competition and anti-dumping; the opening up of markets to public procurement; the removal of state subsidies in industry; and the end of restrictions on the foreign ownership of Nordic industry.

In the flanking areas, progress will be rapid. The Efta countries all want to join the newly-formed European Environmental Agency, and the Erasmus programme that facilitates the exchange of students and teachers. They participate already in specific EC programmes, like Comett covering co-operation between universities and industry on training in technology. The Nordic states are especially keen to strengthen the social dimension under pressure from their own powerful trade union movements. In areas like consumer protection and tourism, agreements are envisaged.

But some fundamental problems have yet to be overcome before the EES can become a reality. The first concerns the decision-making process. As Mr Dinkenspiel argues:

"We recognise the autonomy of the EC in decision-making. Efta has never aimed at participating in the internal deliberations and decisions of the Community in EC matters. On the other hand, Efta's aim is to participate on an equal footing in decisions on joint matters covered by the EES."

In the words of the Efta ministers' statement last December: "The establishment of a genuine joint decision-making mechanism in substance and form is a basic prerequisite for the political acceptability and the legal effectiveness of an agreement."

Norway's trade minister, Mrs Kari Kullman Five, goes even further. In her opinion, "it is essential that real participation in decision-making applies at all stages of the process, from the introduction of a proposal to a final decision. Efta must work to promote solutions which will place the parties on as equal a footing as possible." She argues that a key Efta aim is to ensure new EES regulations are made by Efta and the EC seated around the same table having one vote each.

But, on a visit to the Nordic region last month, the EC's vice president, Sir Leon Brittan, said: "We can devise new systems for consultation and discussion. The Community can involve Efta as closely as possible, as decisions are prepared. But, in the last resort, the Community must remain master of its own decision-making."

In talks in January with Sweden's prime minister, Ingvar Carlsson, and then Norway's prime minister, Mr Jan Syse, President Delors and his colleagues made it clear that they wanted to resolve this tricky question in as an imaginative way as possible. But it will require considerable diplomatic finesse to square the EC's determination to uphold its autonomy in decision-making and Efta's desire to be directly involved in the process.

The second problem concerns the enforcement of agreed rules and regulations within the EES. As Sir Leon told the Swedes last month: "Both sides may have been tiptoeing around these difficulties rather too delicately as the negotiations have developed, not wanting to draw too much attention to an awkward obstacle in the path we both want to take."

He gave his Swedish business audience a good example from his own policy area of competition: "When we are investigating cartels, we do not just have powers to demand information in writing, but may send inspectors on surprise visits to company premises to secure evidence. If a cartel is demonstrated to exist, we may impose fines of up to 10 per cent on turnover. Our decision in such a case is final, subject only to appeal in the Court of Justice."

Principles might be clear, but policy was conducted through the active application of those principles in many particular cases, extending into every area of economic activity, Sir Leon argued. In competition, policy implementation, "depends very much both on the institutional framework for its enforcement and the policy decisions, economic judgment and discretion of those responsible for administering it," he added.

Some Efta states must regard the EES as only a transit camp on the road to full membership of the EC

What the Nordic countries want is to put the agreed EES regulations, when they are made, into their own specific national legislation, enforceable through their own domestic courts in the first instance. But Efta is also agreeable to a wider EC-Efta court, covering the EES, to settle disputes with binding effect, on the lines of the International Court of Justice, in the Hague, and the European Court of Human Rights in Strasbourg.

The creation of common institutions to arch the EES seems probable, but their actual form remains unclear. There is the so-called two pillar model, whereby the EC and Efta build bridges between their two organisations, but this will require much greater cohesion and centralisation inside Efta than the body has had in the past. What Efta appears to envisage is the creation of an Efta surveillance body, but the reservation of sanctions against law-breakers to national courts. This was the pattern adopted last December in Efta, covering the question of state aids.

President Delors has reassured Efta leaders that the EC gives a high priority to a successful negotiation with them on the EES. Neither events in eastern Europe nor the moves to a united Germany will divert the attention of Brussels. The establishment of the EES could provide a model for further economic integration across Europe. But, at the same time, the Nordic countries in particular realise the impetus in Europe for fundamental change is gathering speed.

By the time the EES treaty may have been negotiated, the EC could be much further down the road to economic and monetary union. The Norwegian government has made some tentative inquiries about the exchange rate mechanism of the European Monetary System. There is no prospect of an early move by any Nordic state to relate its currency to the EMS, but, when Britain eventually joins, attitudes may change. The fact is that the present flux in Europe is bringing all certainties into question.

Mr Kjell Bondevik, Norwegian's foreign minister, envisages his country being outside the inner concentric circle in the new Europe for the moment; while Sweden's former finance minister, Mr Kjell-Olof Feldt, suggests that the EC may shrink back to its original six members in a looser, less structured Europe.

Neither development looks likely to happen at the moment, but the EES may quickly become irrelevant to the onward march of events. Certainly, some Efta states, like Norway and Austria, must regard the EES as only a transit camp on the road to full EC membership. Others, such as Sweden and Finland, see the idea as a convenient device to protect their economies while preserving their freedom in foreign and defence policy.

The trouble is that it will become more difficult in the coming months to separate economic from political developments. The end of the Cold War, and the possible dissolution of the military alliances in Europe, creates opportunities for a much more far-sighted and comprehensive settlement than the present EC-Efta process envisages.

SECTION III

FINANCIAL TIMES SURVEY

Venezuela is one year into adjustment measures introduced by President Perez to offset economic troubles. The moves provoked rioting but helped create a consensus to break the corporatist mould. **Robert Graham** reports on the healing process

Government on probation

The Guri hydroelectric complex is one of the world's largest. It's 10,000mw of generating capacity provides low-cost energy

Venezuela

KEY FACTS

Land Area	912, 050 km
Population	18.76m
Real GDP Growth (1985 prices)	1989 = 6%; 1988 =5.7%;
Real GDP per capita (1985 prices)	1989 = $623
	1988 = $747; 1987 = $842
Consumer Price Inflation	Sept 88/Sept 89 = 95.7%
	1988 = 29.5%; 1987 = 28.1%; 1979-89 = 22.5%
Current Account ($m)	1989 = -700;
	1988 = -4,692; 1987 = -1,125
Trade Balance	1989 = +2,690;
	1988 = -1,347; 1987 = 1,735
Merchandise Exports	1989 = 11,200;
	1988 = 10,234; 1987 = 10,567
Merchandise Imports	1989 = -8,510;
	1988 = -11 581; 1987 = -8,832
Reserves Minus Gold	1989 = 3,092;
	1988 = 3,092; 1987 = 5,963
Currency 1 bolivar (Bs)	= 100 centimos
Main Destination of Exports	US 49%; W Germany 5.5%
Main Origin of Imports	US 44%; W Germany 7.3%

THE shopping centres in Caracas, the most conspicuously wealthy in Latin America, are as well stocked as ever. But there have never been fewer buyers. At night the capital's population, normally so addicted to bars and restaurants, is going out less frequently: budgets are tight and crime is on the increase.

No one has escaped the impact of recession during the past year, which has seen living standards fall to the level of the Sixties. Officially, the gross domestic product declined 8 per cent but many believe the decline was more than 10 per cent. "This was the most dramatic drop in recent memory," says Mr Pedro Palma head of consultants MetroEconomica.

Since the onset of the Latin American debt crisis only Chile and Peru have witnessed greater economic contractions in a single year. But more than any other debtor, Venezuela's plight is the most self-induced. The previous Lusinchi administration squandered $8.5bn, half the country's reserves, in its final two years, sustaining a boom with unrealistic exchange rates that encouraged abuses. Financial advice was ignored because a stabilisation programme risked political unpopularity.

Even though Mr Lusinchi was from Accion Democratica (AD), the same party as his successor, he had no compunction in handing over the uncomfortable decisions to President Carlos Andres Perez. *Thus President Perez was* obliged to introduce, Draconian adjustment measures. Among these were steep petrol price increases which provoked spontaneous riots in Caracas before the end of his first month in office on February 27, 1989, that spread to other cities, and resulted in more than 300 dead. This was the most dramatic outburst of social unrest for more than a decade in Latin America.

"What happened was not so much a social explosion as a breakdown in public order which was badly handled: the security forces were ill-equipped to cope," says Mr Diego Arria, a former Mayor of Caracas.

The riots have profoundly chastened Venezuelans who believed their society was free of serious social tension. Yet, in a perverse way the experience has proved positive, even cathartic. Gone is the illusion that Venezuela can ride out its problems with petrodollars. Fresh focus has been given to the need to lessen dependence *upon the vagaries of oil prices,* even though conservative estimates of reserves will permit production well beyond the middle of the next century. There is a broader consensus for President Perez's plans to break the old corporatist, self-protective, state-dominated economic mould.

The events of February 27 have been a catalyst within the political system. They exposed the incapacity of AD and COPEI, the parties which have alternated in power, to provide any leadership. These parties have lost ground to the well-run leftist party, MAS, or to emergent radical groups such as Causa-R whose Mr Andres Velasquez, a steelworkers' leader, recently won the important governorship of Bolivar State. To regain the initiative, the two main parties will have to become more responsive and less corrupt.

An important side effect of austerity has been increased public sensitivity to corruption and abuse of office which has been rife in previous administrations. Never before has an administration been investigated in such depth as that of Mr Lusinchi. One of his ministers is in jail pending trial, his mistress is staying out of the country to avoid investigation and he has been called to make a statement before Congress.

All this is a curious turn of the wheel for President Perez. During his first term in the Seventies, he presided over the height of the oil boom, handing out state largesse and encouraging the view that oil wealth inoculated Venezuela from the region's maladies. He left his stamp by nationalising the oil companies and ensured other strategic sectors were in state hands. Import substitution was the most fashionable dogma, restricting foreign investment and fostering the hope of an Andean common market — dominated by Venezuela's financial muscle and cheap energy resources.

The economic team headed by Mr Miguel Fernandez, the Minister of Planning, could not be more different — zealously espousing the market economy. Mr Fernandez has adopted a set of economic adjustment measures in complete agreement with the International Monetary Fund. These include unification of exchange rates, sharp devaluation, raising utility charges and freeing prices while upping interest rates and holding back wages.

Trade and tariff policy is being realigned with that of the GATT, which Venezuela will shortly join. (Next month the maximum tariff level will drop to 50 per cent, and will be 20 per cent by 1992). The foreign investment rules have been redrafted on the basis that foreign capital is a positive contribution to development instead of an infringement of national sovereignty.

As for giving greater room to the private sector, the Government is committed to open up the financial system, and progressively sell off all non-core industrial activities. The oil company, PVDSA, will remain under state control but more private sector involvement may occur in the management.

The hope is that PVDSA's dominance will decline as the economy diversifies, exploiting its mineral, energy, agricultural and tourist potential. "The situation today is so different it cannot be compared to the Seventies," President Perez replies when challenged about his different style and new policies. "Political leaders have to change their views. What was valid yesterday is not necessarily so today. I don't believe I am being inconsistent."

At times President Perez seems ill at ease concentrating on economic management instead of his preferred role as the international spokesman of Latin America. But he has nailed his prestige to overhauling the economy and the austerity measures as the foundations for sustained future growth. By persisting with unpopular policies he has shown considerable courage.

However, the President is a lonely man, very exposed if things go wrong. His cabinet team *is not homogenous and* the bureaucratic back-up is, with a few notable exceptions, poor. His own party, AD, is deeply split and provides only lukewarm support in parliament. Divisions within the AD could exacerbate with efforts to castigate Mr Lusinchi. The full weight of government falls on President Perez and in private he talks about finding someone for a prime ministerial role.

The stabilisation programme is beginning to work. This is illustrated by the fact that exchange rate distortions have been ironed out, reserves have increased, the public sector deficit has been cut by two thirds and prices reflect more realistic levels.

"The first half of the year is going to be crucial," says President Perez. This is because the recession will not have fully bottomed out before the benefits of social support mechanisms filter down. Unemployment is unofficially put at 14 per cent, with a further rise expected by an increase in bankruptcies among companies which cannot absorb continued high interest rates and the impending reduction of import tariffs. The real level of unemployment is always hard to tell given Venezuela's dependence upon a large supply of immigrant labour. There are anything between 600,000 and 1.2m Colombians in the country.

Critics argue welfare and temporary employment measures have been inexcusably delayed by a bureaucracy which has no idea how ordi*nary people are suffering.* Mr Diego Aria, though an admirer of President Perez, warns: "I am concerned the social situation may not give him enough room for manoeuvre." Significantly, the government is holding back on a gasolene price increase agreed with the IMF.

The next several months will require some skilful legerdemain — convincing Venezuelans his policies are not merely working but that the recession will soon be over. Independent analysts do not believe a recovery could realistically begin before 1991. Venezuela has a small economy and the Government, through oil income, has sufficient resources, to make a quick recovery.

The light which can be seen at the end of the tunnel will come closer if Venezuela is able to reach an agreement with the commercial banks on $20bn of its $33bn foreign debt. Such an agreement will not only reduce capital outflows but act as an *imprimatur of* approval from the international financial community on Venezuela's economic policies.

Argueably, this painful initial start to President Perez's second term has been the easiest. The hardest part is going to be making foreign investors welcome, pushing the private sector to take the initiative and rejuvenating the public corporations while genuinely slimming down the role of the state. Only in this way will the country take advantage of its huge resource potential, its strategic location and thus cease to be a *rentier* economy living off oil.

BANKING

Sector braced for a tough financial year

THE STRENGTH of Venezuela's commercial banks will be severely tested over the coming year. They are having to absorb the shocks of the country's unprecedently deep recession, while still coming to terms with the effects of the February 1989 devaluation.

Results for 1989 suggest the banks weathered the first year of the stabilisation programme in better shape than might have been expected.

However, the banking community is now braced for a tougher year at both the retail and wholesale end, which could in turn lead to some mergers. The government is also expected to use the banking sector as a test-bed for its privatisation programme by auctioning off three state-controlled banks. This would also be the signal for greater de-regulation and the re-opening of banking to foreign capital.

The bank has tried to be flexible by setting *maximum/minimum* rates of interest

Prior to the February 1989 stabilisation programme, the banking system had faced a heavy demand for credit which the commercial banks were unable to satisfy because of the Central Bank's restrictive monetary policy.

Interest rates had been frozen at their October 1985 levels – 13.5 per cent for loans and 10 per cent for time deposits. With inflation running at 40 per cent, these negative interests rates encouraged a near stampede into buying preferential or free market dollars or accumulating unusually large stocks.

As part of the stabilisation measures, the government of President Carlos Andrez Perez liberalised interest rates. No sooner was this done than the measure was challenged in the courts, subsequently obliging the Central Bank to fix rates.

However, the bank has sought to be as flexible as possible by setting maximum/minimum rates of interest. The net effect of this policy was a sharp raise in interest rates with loans rates reaching 45 per cent. This led to a shift away from call deposits and long term bonds into high yielding, comparatively liquid instruments.

In these circumstances, lending slowed while deposits grew. With little demand for credit at such high rates in an abruptly contracting economy, the banks first used their excess liquidity to buy foreign exchange.

Then the Central Bank moved in to offer high yield short-term bonds in November. The monetary authorities also continued to rely on requirements obliging banks to place a portion of their deposits with the Central Bank, plus the obligation to lend 22 per cent of their deposits to the agricultural sector (17 per cent at preferential rates).

Preliminary results of the commercial banks for 1989 indicate profits increased an average 25 per cent. Though the banks have outperformed most companies, their results nevertheless need to be measured against an annual inflation rate of 80 per cent and an exceptionally privileged tax status.

In the second half of the year risk provisions were absorbing on average 60 per cent of operating profits. The authorities are sensitive about any comment that might suggest the vulnerability of banks.

The banks have been able to accumulate considerable fat in the previous two years. However, few envisaged the sharpness of the recession. With construction down 30 per cent, industrial activity down overall by 14 per cent and interest rates high, the number of company bankruptcies is expected to rise this year. This in turn is bound to impact on the banks given their often closely interwined relations with industry.

Both the banks and companies have been negatively affected by the February 1989 devaluation which left them holding large amounts of letters of credit contracted at previously preferential bolivar/dollar rates.

The value of the letters of credit outstanding following the devaluation was \$6.3bn. Eventually the Government agreed to honour part of these commitments since many companies had sold or used part of the goods imported at prices reflecting the foreign exchange cost of the former system. The cost to company cash flows of these letters of credit has been heavy and the largest commercial bank, Provincial, last year made a provision of Bs770m, in this respect.

Although there are 32 private banks and eight state-run banks, the system is dominated by no more than five private institutions (Provincial, Latino, Mercantil, Venezuela, Union) and the state's Industrial). There is thus plenty of scope for consolidation, especially as the country is heavily branched. The Government plans to privatise three banks which it acquired over the years through intervention Industrial is the sole bank likely to remain in the state's hands.

The authorities are sensitive to comment that suggests the vulnerability of banks

No date has given for the sell-off and indeed the country's whole privatisation programme is lagging behind public promises. Nevertheless officials insist the scheme will go ahead. The same lack of precision surrounds the question of re-opening the financial sector to foreign investment.

Foreign banks have been banned since 1976 – legislation which has left Citibank as the sole foreign bank fully operational in the country. Credit Lyonnais meanwhile has a 16 per cent stake in Provincial.

If the go ahead were given, a foreign banker estimated that two Japanese banks, two US and one each from France, West Germany and the UK might be let in. The principal attraction is corporate finance.

Robert Graham

Christina Lamb uncovers a lost world of tourist attractions

Beaches lure high spenders

A TOURIST arriving in Venezuela and catching sight of the local press would draw a strange first impression. On one page an advertisement tells locals to smile at tourists for the "national good." On the next the US State Department is offering instruction from their security experts for self-defence against the growing wave of crime in Caracas. On the back Health Ministry figures reveal there are 250,000 stray dogs in the capital and that 47 people have died from dengue fever.

Not encouraging. Neither are the expatriates who say there are no nice beaches in Venezuela. They are lying. No one wants to share with a crowd of noisy tourists a palm fringed silvery beach on the edge of an emerald lagoon in which pelicans dive among swimmers for fish and crimson ibex flash past in flames of red.

The secret will not be kept much longer. The Venezuelan Government, strapped for cash in the face of a rising deficit, has woken up to the country's tourist attractions of Caribbean beaches, mist shrouded Andes and steamy jungles that inspired Conan Doyle's "Lost World."

The government of Carlos Andrez Perez is determined to attract what it calls "sophisticated high spending Europeans." However, its fiscal crisis means it cannot inject the kind of money needed to bring the infrastructure and standards of service to the levels of those countries with which it is trying to compete.

So far the main success has been with small specialised companies offering "soft adventure tours" in jungle areas. Almost 500 years after Columbus landed on the Venezuelan coastline and realised he had discovered a great continent, wealthy young explorers are reaching the same conclusion. Venezuela is undergoing a new kind of invasion, this time of accountants and bankers, wanting to swap pinstripes and briefcases for dugout canoes and exotic experiences.

So far their numbers have been small and the beaches are still blissfully devoid of foreign tourists. Tourism makes so little contribution to the economy that it is estimated that even if every room in every hotel were full the earnings would still be less than a week's oil production.

In 1987 there were 700,000 tourists bringing in \$416m, a threefold increase since the devaluation in 1983 which turned Venezuela from being the most expensive Caribbean resort to the least expensive.

Caurama river, Guayana province near the Brazilian and Guyanan border is an area in the process of being opened up to tourism

Although devaluation made Venezuela more attractive to foreigners it has also made foreign travel for locals prohibitively expensive and there is increasing pressure on domestic facilities.

Long gone are the days when it was cheaper to fly to Miami or New York for the weekend than stay in Caracas. Instead, rich Venezuelans head off to beach resorts where they relax on yachts or motorboats.

Because for so long Venezuela's huge oil revenues meant it never had to worry about catering for tourists, it now lags far behind other Caribbean or Latin American destinations such as Mexico. In Caracas for example, the funicular which was the main tourist attraction, has been out of service since 1977.

The lack of infrastructure is particularly evident in Chichiriviche, the main stopping off point for Morrocoy national park, a paradise of islands and coral reefs. There are two reasonable looking hotels which deteriorate sadly beyond the three-star sign on the entrance, but these are oasis in a forlorn town of muddy streets, wild dogs and horses.

The capital has little to offer to tourists beyond superb food and drink. During the late 1970s Venezuela was the world's highest per capita importer of champagne and Chivas Regal.

The drain-like highway from the airport through the valley bottom, with its hoardings for drinks, cigarettes and electrical goods flashing by, is a early sign of the consumer city that is Caracas. Closer in are signs of wealth ever more obvious with arrogant modern architecture such as the looming glass Parque central, the highest tower in Latin America.

Venezuela is a third world country that looks like North America and where street vendors sell tapes and leather rather than dusters and combs. Instead of overcrowded buses there is a French designed metro. With seats available even at rush hour, no drunks to trip over on stairs or snappy ticket collectors to contend with, the metro is a source of wonder to those accustomed to battling on undergrounds in Europe.

Outside Caracas the process of reaching a destination can detract from the place. Bookings often disappear and a British tour organiser recently arrived at the airport to find *his own reservation cancelled.*

But the tourist drive is on and the government and VIASA, the national carrier anxious to fill flights, have mounted an advertising campaign that has already reached Europe. The Government is privatising 13 of its hotels. Hotel construction has been specially targeted for debt equity swaps.

It is unclear quite at whom the campaign is aimed. Mr Esteban Torbar, head of Turismo Maso International, one of the largest companies in the sector, says: "We want people who spend rather than the Canadian type of tourists who bring their own sandwiches." However, Venezuela's plans seem based more on hope than reality.

Price was what brought in budget conscious sun-seekers from 1983-7 and now that has gone. In 1989 the number of tourists was *down* by between 30 per cent and 40 per cent on forecasts.

Venezuela is in danger of over-selling itself before establishing a proper infrastructure.

Robert Graham examines a foreign policy that has become more inward-looking

A globetrotter cut down to size

TWO enormous globes are ranged beside one of the ornate walls in President Carlos Andres Perez's study at the Miraflores Palace in Caracas. They are apt objects for a man who has always prided himself on his global vision.

When he took office for the second time last year, he was already a veteran figure on the international stage and looked set to become the most active, high profile spokesman for Latin America. In practice his role, and his projection of Venezuela, have been rather different.

The traditional rhetoric about Latin American solidarity has disappeared from his speeches and he has been pursuing the old Bolivarian dream of integration in a far more pragmatic way. He has concentrated on improving bilateral relations and has pushed Venezuela more into an orbit with traditional rival Colombia and Mexico – all incidentally fellow oil producers.

Furthermore he has dropped any hint of a confrontational approach in dealing with the Bush Administration. Instead, he prefers to air differences behind the scenes on the telephone with President Bush. In this way he feels he has more chance of influencing Washington to strike a favourable deal over debt, and encourage the US to view Venezuelan oil as a reliable strategic stock.

The President's political opponents claim that his handling of foreign relations has less to do with a change of views and style and much more to do with circumstances. They say he would like to be making much more noise but his wings have been clipped by the February riots and the gravity of Venezuela's economic crisis.

Undoubtedly, events at home have forced him to be more inward-looking. But in conversation, the President's eyes light up when talk turns to the world stage. He has lost none of his passion for international politics but in his second term he finds himself confronted with a wholly different set of issues which require more subtle handling. It also has to be said that when he presided over the height of the oil boom in the 1970s, Venezuela obtained remarkably little return for parading as the rich uncle of Latin America.

The most interesting example of his new approach has been over Panama. In the past he would have rushed to overt condemnation of the US invasion and the removal of General Manuel Antonio Noriega. But now he views events far more wistfully and self-critically.

No matter how unpalatable the US action might have been to Latin American governments wedded to the principle of non-intervention, he believes the regional leaders were not completely blameless. Their efforts failed to talk Gen Noriega into a negotiated exit (and President Perez was among the most persistent). These negotiations, even he concedes, provided Gen Noriega a form of protective umbrella, alowing him to play on their rejection of direct intervention.

Venezuela is still withholding recognition of the Endara Government in Panama as a form of protest against the use of force and the continued presence of US troops occupying Panama. He believes the lessons from Panama have to be studied in depth and every Latin American government should try and approach the issue of non-intervention with fresh eyes, especially where smaller states are concerned.

In this context, President Perez has been using his good office to try and ease Cuba back into the Organisation of American States (OAS). As a counterpart, he has attempted to convince President Fidel Castro to make some concessions to political pluralism in Cuba.

President Perez is probably the most reliable confidential conduit for messages between Havana and Washington. Venezuela still acts as the formal supplier of crude to Cuba, via a triangular oil deal with the Soviet Union; and Venezuela has become a key supplier of food for the Cuban tourist industry.

Quiet diplomacy has also helped improve relations with neighbouring Colombia. With a common border more than 2,200km long and a disputed offshore zone, relations with Colombia touch on everything from national security, drugs and contraband to economic development. Venezuela also hosts a substantial Colombian worker population which is estimated at anything from 600,000 to 1.2m.

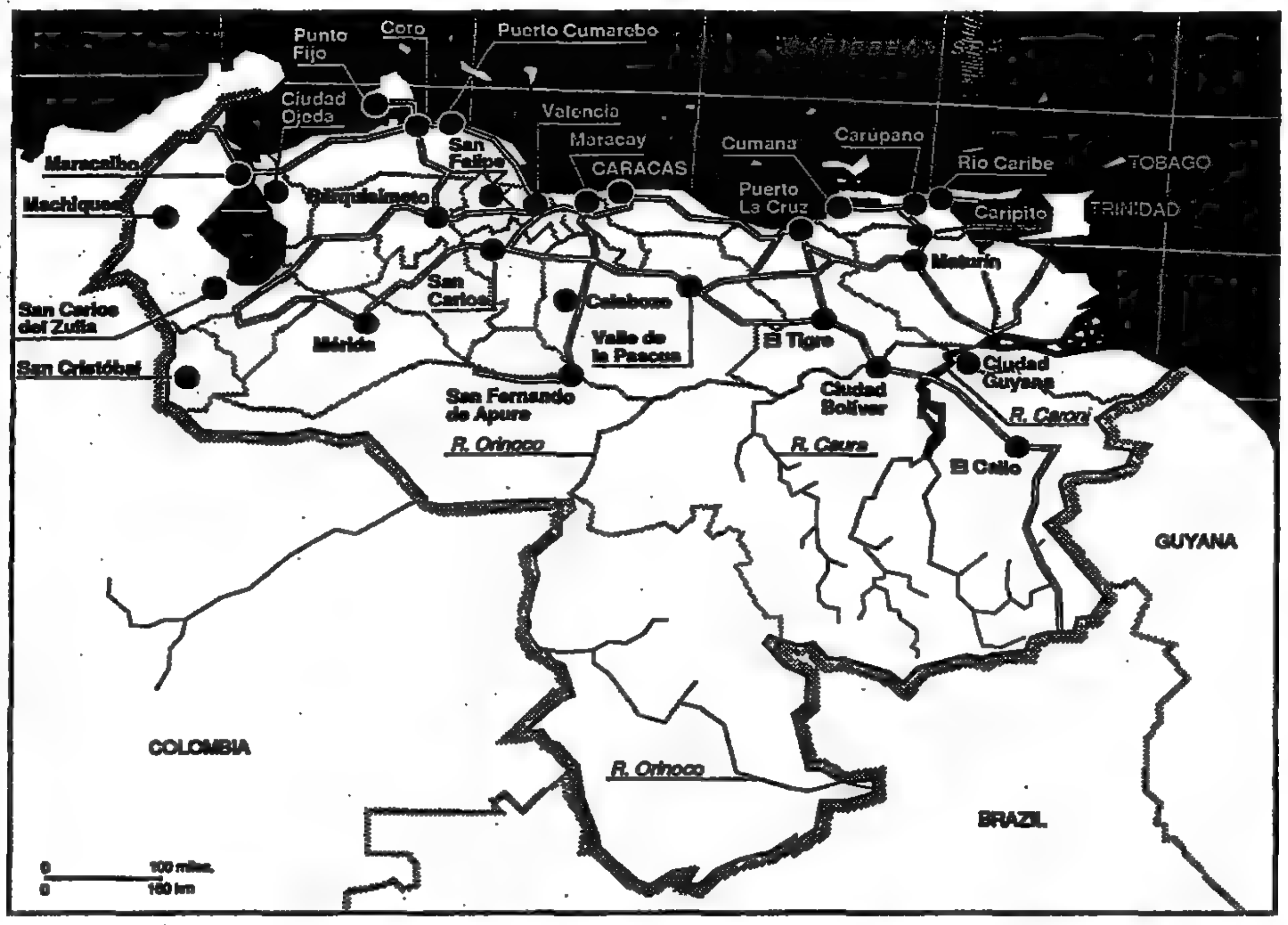
The two countries came close to conflict in August 1987 over an incident in disputed waters north of Maracaibo. The incident was a sobering reminder of the dangers of an unresolved territorial squabble. Since then the two sides have set up a border commission with the object of reaching a definitive compromise.

Faced with an active guerilla movement on the Colombian side of the border, the Venezuelan security forces have been obliged to beef up their strength. President Perez is also concerned by the heightened war in Colombia against the drug mafia. He is well aware that the cocaine laboratories could spring up in Venezuela if expunged in Colombia. Venezuela is used as a transit route for drug shipments to the US.

While mutual self-interest has helped force the pace of co-operation with Colombia, the pressures have been much less pronounced to settle relations with Venezuela's eastern neighbour, Guyana. Venezuela claims some 85,000 sq km of western Guyana abutting Orinoco delta, equivalent to nearly one third of the latter's territory. The claim is based on the area being formerly part of the Spanish colonial empire.

President Perez has accelerated a slow process of rapprochement and this month a special UN mediator was appointed. The disputed area has many similarities with eastern Venezuela which possesses abundant heavy crude fields, iron ore, bauxite and gold deposits plus hydro and agro-industrial potential.

The Guyana border presents no security problem, given the latter's small population and the huge natural obstacles impeding communication and transport. However, further to the south Venezuela this year has belatedly discovered that thousands of illegal gold miners have crossed over from Roraima in Brazil. As many as 30,000 *garimpeiros* are believed to be operating inside the Venezuelan border, contaminating the rivers with mercury and removing gold back into Brazil, in addition to harassing the indigenous Indians. The government has begun to build a series of small forts along the border to establish a semblance of authority in this remote region.



The political system is undergoing change

Fraud clouds linger

THE POLITICAL system is going through a period of change that should make it more democratic. In municipal and gubernatorial elections held last December, Venezuelans could vote, for the first time, for regional candidates by name rather than by slates prepared by political parties.

They also chose the governors of 20 states (previously they were named by the President) and voted for mayors, a post created under reforms approved in 1989.

The results of December's elections, although still incomplete due to protests of fraud, were a severe blow to the ruling Democratic Action (AD) party, which has dominated Venezuelan politics for most its democratic history.

AD, which had controlled all governorships through presidential discretion since 1984, won in 11 states but lost 9 to opposition political parties. In elections for mayors and city councils, AD saw its national majority shrink considerably, and lost mayoralty races in several urban centres.

Opposition governors were elected in important areas, overcoming powerful AD machines that had controlled local politics for years.

Mr Oswaldo Alvarez Paz, of the Christian Democrat Copei Party, won the governor's post in Zulia, the most populous area after Caracas; Mr Andres Velasquez, a steelworker representing Causa R, a small leftist party, took the governorship in Bolivar state, formerly an AD bastion and the country's heavy industry centre; Mr Carlos Tablante, the candidate for the socialist party MAS, won Aragua state, an important military centre, and Mr Henrique Salas Romer, representing Copei and other opposition parties, is the chief executive in Carabobo state, another critical industrial region.

AD stalwarts in Carabobo, accustomed to ruling the state for many years, at first rejected Mr Salas's victory, and National Guard troops had to be called in to quell rioting. President Carlos Andres Perez, a long-time leader of AD, welcomed the free election of governors and pledged to work closely with elected officials of any political colour.

Mr Perez's enthusiasm was not matched by many of his AD colleagues who blame his tough economic policies for the decline in AD popularity.

Venezuelans who opted for a significant number of opposition candidates in December, were showing their lack of faith in AD promises and the negative impact of widespread corruption during the last AD government, headed by Dr Kaime Lusinchi from 1984-89.

An AD candidate for governor, Mr Modesto Freites, won the elections in Lara state even though he was in a Caracas jail. Mr Freites was charged with corrupt acts while he was Planning Minister under the Lusinchi regime.

AD is in the midst of an agonising period of self-criticism over corruption. The party last year expelled some close associates of ex-president Lusinchi for a variety of issues linked to alleged improper acts while in office.

The Congress is investigating Dr Lusinchi, a pediatrician-turned-politician, for what his political foes say were alleged misfeasance during his five-year term. Moreover, a criminal court has issued arrest warrants and travel bans against several of his top collaborators, including a former Interior Minster who served as acting President when Dr Lusinchi was abroad.

Venezuelans have been able to vote directly for presidential candidates since the last military dictator was ousted in 1958. But the election of national congressmen and state legislators has been indirect up to now, since political parties decide on the individuals who fill party slates.

Most decisions of this type were made by a handful of party leaders, who often postulated figures who had nothing to do with the states that they sought to represent. Last year's electoral reforms were supported reluctantly by some powerful leaders of AD, which held a majority in Congress, since a more open democracy reduces the power held by party elites.

Widespread public pressure forced approval of the 1989 reforms, and opened the door to changes that should lead to direct elections of national congressmen and state legislators.

Progressive politicians are strongly endorsing changes both in public elections, and in the ways the parties choose their leaders. Voter abstention in December's elections coming a year elections for a president, national congress and state legislatures, reached over 53 per cent the highest on record.

There are various interpretations of why voters decided to ignore regional and municipal elections where they could vote directly for the first time.

Some AD leaders tried to blame President Perez's unpopular economic policies. This is only a partial explanation since he remains an immensely popular figure. Voting last December was not obligatory for Venezuelans, as it is in elections for the presidency. Many Venezuelans said they were fed up with advertising, rallies and speeches linked to party, national and regional political campaigns that had run non-stop since 1986.

Joe Mann

Oil discoveries did not help agriculture, reports **Christina Lamb**

Growth without petrodollars

FARMERS like to tell the story of the arrival of Columbus on Venezuelan shores, proclaiming he had discovered a continent. The locals dismissed his achievement saying it was easy – "anyone can row a few miles."

In response, Columbus produced an egg and challenged his detractors to stand it on end.

After they had all given up in frustration he banged one end slightly and stood it up. The angry locals said that it was easy and it was just a trick.

"No," replied Columbus, "it's easy when you know how."

"Similarly," says Dr Ellis Juan, director of the country's Investment Board, "it is easy to see the mistakes made in our agricultural sector by protecting and producing on too small a scale. But the discovery of huge oil reserves meant we had so much, so fast, it clouded our vision. Because we never forecast that one day oil prices would fall we did not prepare ourselves."

Until recently, petrodollars provided so much money that Venezuela could import agricultural products and sell them at subsidised prices. So it was eggs and chips from Miami, meat from Argentina and vegetables from Chile while the country's considerable agricultural potential went neglected.

In the 1930's agriculture had been the mainstay of the economy. It provided 70 per cent of gross domestic product. By 1984 it had fallen to 5.3 per cent, while 74 per cent of the country's food was imported.

Industries such as coconut died because home producers could not compete with goods imported at a preferential exchange rate.

Venezuela became a nation of traders and speculators rather than producers, farmers discarded their ploughs for lucrative employment in oilfields or cities. By 1988 only 12.3 per cent of the population was employed in agriculture compared to 45 per cent in 1960.

The fall in oil prices in the 1980's forced the Lusinchi Government to diversify into non-oil products. But they continued trying to live as an island, protected from market forces with a short-sighted, subsidy-driven policy.

Agricultural credit was offered at 8.5 per cent, farm prices were kept high, producers paid no taxes and were given an 80 per cent discount on fertilisers and a preferential exchange rate for imports such as machinery.

By 1986 the Government was claiming an "agricultural miracle." The country had gone from producing less than 30 per cent of its food needs to more than 70 per cent. In fact, higher prices meant less food was being smuggled to neighbouring countries while much of the cheap credit went to buy weekend ranches or flats in Miami.

The exercise failed to foster efficiency and subsidies cost more than $1.5bn between 1984 and 1989.

Last year, as part of the stringent economic adjustment programme of the new President Carlos Andres Perez to correct the fiscal and external deficits, the subsidies were mostly curtailed. Restrictions on agricultural imports are to be phased out by 1991 in accordance with a World Bank plan.

The political cost of such rationalisation is high. Subsidies protected consumers and the Government fears the consequences of linking prices at consumer and producer level. Last year, attempts at this provoked the country's first riots in 30 years.

President Perez realises that instead of his initial plan of shock treatment to open the economy and remove subsidies in the shortest possible time, he must balance agricultural price policy with the social effects of increased prices.

Livestock producers have been pushing for higher prices to offset increased production costs but the Government's lack of action has caused a wave of speculative price increases along the marketing chain, putting prices out of the range of many consumers and earning no more for the producers.

Food prices have been hit by inflation and stories abound in the press that dog food consumption is up by 30 per cent. A recent report by CAVIDEA, the Chamber of Food Industrialists, found that in the last two years the country's average nutritional levels have dropped to those of 1949. It attributes this to rising prices and says: "In 1988 the average Venezuelan had to use 70 per cent of his income on food."

Dr Jorge Schlageter, President of CAVIDEA, believes that the solution lies in changing diets to what the country is good at producing and reducing the number of middlemen: "It is time for the growers and producers to get together and end the situation where people in the agricultural ministry decide what we'll be doing three months down the line then four months on change it."

One of the clearest examples of how government interference has damaged agriculture is cocoa.

Venezuelan cocoa is recognised to be one of the world's finest in terms of blending and aroma and is used by many of the world's leading chocolate makers.

In the early 1970's the Government decided to get more value added by exporting semi-processed or finished products and provided incentives to companies utilising local raw materials.

Dr Schlageter's company Chocolate El Rey invested in a new plant to take advantage of this: "All was going beautifully when overnight in 1980 the Government decided to change the price and created a marketing board with a monopoly on the buying and selling of cocoa. In order to compete on the international market and pay for the bureaucratic costs of the operation, the Government put up the price for local buyers."

This backfired and cocoa production fell from 20,000 tonnes in 1975 to 11,000 in 1985. It has since increased with processing companies such as Chocolate El Rey being allowed to grow their own cocoa.

So far the Government's agricultural strategy is unclear and 1990 will be a testing year for its commitment. Analysts estimate that the removal of subsidies will cause a fall in agricultural output by between 5 and 10 per cent, particularly in maize where production costs are high. Last year, agriculture provided 5.9 per cent of GDP, almost three quarters of which came from rice, maize, coffee, sugarcane, sorghum, plaintains and potatoes.

For the past few years export earnings have averaged $200m compared to imports of $1.2bn and there is plenty of potential for expansion. The climate is favourable and 30 per cent of the country's 95m hectacres is said to be cultivatable but only 2.2m are currently used.

Venezuela is well placed for exports to the US and Europe. Apart from the traditional foreign exchange earners of cocoa and coffee the Government is encouraging the growth of plantations and tropical fruits in joint ventures with foreign companies.

Foreign participation has been made easier by decree 1200 passed in July 1986 which exempts agriculture and agroindustry from the most stringent applications of the Andean pact chapter on foreign investment.

Dr Eugenia De Armas, the Agriculture Minister, says: "Over the next five years we plan to rationalise agriculture so we produce more to export." He admits that a large problem is distribution and the lack of packing and testing facilities to meet international regulations. The country has only 100 miles of railroad and no integrated slaughterhouses and packing units. He says the Government intends to increase silage facilities. The removal of price controls on many processed food products is expected to encourage the industry to increase its investments by more than $2bn in the next five years.

However there are hindrances to making agriculture more efficient which the Government has yet to tackle. The end of preferential exchange rates put up input costs by 150 per cent. The biggest tractor company is re-exporting 400 of the 1,000 tractors it imported last year. More serious is the lack of manpower. Venezuela has a population of only 18m, 80 per cent of whom live in cities. It would take a large re-education campaign to persuade them to go to rural areas which they see as backward.

Up to now the labour gap has been filled by immigrants from neighbouring Colombia. One of the biggest ranchers, Mr Ivan Maldonaldo, explains: "The problem is we don't have the people to reform agriculture. The old farmers are too old and the young have never been in the rural areas."

Venezuelan cocoa is acknowledged as one of the world's finest in terms of blending and aroma

Agricultural miracles don't come cheap: President Perez must balance policies with the social effects of higher prices

THE GOLD SECTOR

Fear of foreign exploitation holds back gold production

"IT WAS just as they show it in B movies," says Mr Jean Louis Branthomme, a French goldminer, who has lived in Venezuela for 10 years.

Fortunes were made and lost, life was cheap, home was a hammock and a pickaxe. Shanty towns were built from oil drums by bounty hunters. Bars and prostitutes sprang up overnight then quickly disappeared. All that mattered was the search for that glint of gold. In the past few years Venezuela had its own Klondike-type gold-rush.

That should not be surprising. Venezuela is the land of El Dorado where over the centuries many have died tearing the jungle apart in search of fabulous wealth.

Recently the myth has shown signs of reality. Surveys carried out by the last government in just a few areas in the south-eastern province of Guyana, show there to be 8,000 tonnes of gold, 5,000 of which could be extracted through surface techniques.

Mr Robert Kendrick of Monarch, one of two foreign mining companies in Venezuela, says: "There is so much gold here that anywhere else in the world with even half the levels would be besieged by big mining companies."

The reason why Venezuela is not is simple. Fear of foreigners exploiting national resources has kept tax on gold mining profits at 60 per cent and royalties up to 20 per cent while an immense web of bureaucracy must be negotiated to obtain concessions. This combined with the inevitable risk and high capital outlay has put off all but small miners, armed only with persistence and pickaxes and not registered on any tax lists. Many, often illegal aliens, have made fortunes in recent years.

But this is soon to change. The decline in oil earnings has made the financially strapped government eager to tap other resources such as gold with the help of foreign capital. In late 1988 the authorities changed the law on investments, enabling foreign companies to invest in gold-mining without being part of a joint venture.

In December President Carlos Andres Perez also promised that the rate of tax on gold mining profits would be slashed to 35 per cent, a change expected in March when the mining law comes up before parliament. President Perez has already installed an official in the Mines Ministry to reduce the backlog of applications for concessions and streamline the procedure.

The President hopes to turn Venezuela back into one of the world's leading gold producers as it was until the discovery of large deposits in the Transvaal in 1886. Rusted metal name plates found in the jungle today show that mining in those days was mostly carried out by British companies.

The forthcoming changes are likely to spark off a new gold-rush by large companies rather than individual fortune hunters. Two British companies have positioned themselves on the ground, obtaining rights to exploit concessions in Guyana, in the belief that the legislation will change and that there is plenty of gold.

The first British gold company to appear in Venezuela since the gold-rush days at the end of the last century was Greenwich, which moved in five years ago. It is working on two private concessions and two joint ventures with the government, though it has yet to start mining.

The decline in oil earnings has made the financially strapped government eager to tap other resources such as gold

Mr Roger Silver, a director of Greenwich, whose son's thesis on El Dorado sparked off his own interest, believes there is $25,000m worth of gold which could reasonably be produced over the medium-term.

Monarch Resources, the biggest mining operator in the country, moved into Venezuela in 1986 when increasing political tensions in South Africa encouraged them to look for an alternative source of gold supply. Monarch runs the only private mine in Venezuela, working in partnership with the government owned CVG and Venezuelan investors such as Banco Mercantil.

Last December they began processing a huge amount of tailings from El Callao, once the world's richest mines. Because of the inefficient methods of the past the tailings still contain considerable quantities of gold (around 1.34 gramme per tonne) which today can be extracted fairly easily. Monarch believes there are enough tailings to produce 688kg of gold per annum for the next eight years.

Monarch will also begin mining El Callao where records indicate the old mine contained grades of ore of up to 215 gramme per tonne; elsewhere in the world mining is profitably carried out with only four grammes per tonne.

Mr Fred Van Dungen, manager of Monarch's operation, is more excited by another of the company's concessions, La Camora at El Dorado, where preliminary drill findings indicate the presence of 570,000 tonnes at 20 gramme per tonne between 50m and 300m deep.

Monarch's sophisticated carbon in pulp operation is different to the methods of small miners or the illegal Brazilian garimpeiros, so much in the news for the ecological damage they cause and their threat to the Yanomami Indians of whom there are more in Venezuela than in Brazil where their plight has been highlighted. The clampdown in Brazil has led to a large influx of garimpeiros into Venezuela.

The damage caused by such miners is evident just a short distance from the Monarch plant where claybanks are stripped of trees and permeated by a series of holes as if made by some strange animal.

That animal is man who digs holes with picks 25m deep or until he hits a vein and then carves underground caverns, working in suffocating conditions. Around El Callao about 120 have permits but authorities estimate 5,000 are mining.

Pedro, a Colombian, and his mother and brother have struck a vein, some 20m down, and take turns at being lowered by rope into the deep black well to scrabble for ore until they can barely breathe. Recently, they had a good week. Their two sackloads of ore contained about 20 gramme per tonne, of which the Brazilian millowner who refines it using mercury will takes 40 per cent. The haul will have netted the family $300 at a gold-buying agent in the nearby town. But this is rare fortune. Last year Pedro's father was killed in such a hole.

Such gold is often sold outside Venezuela at a premium often for drug laundering purposes. To reduce smuggling, estimated to account for more than 70 per cent of total output, in 1987 the Central Bank adopted a new policy of buying supplies from domestic miners at international prices.

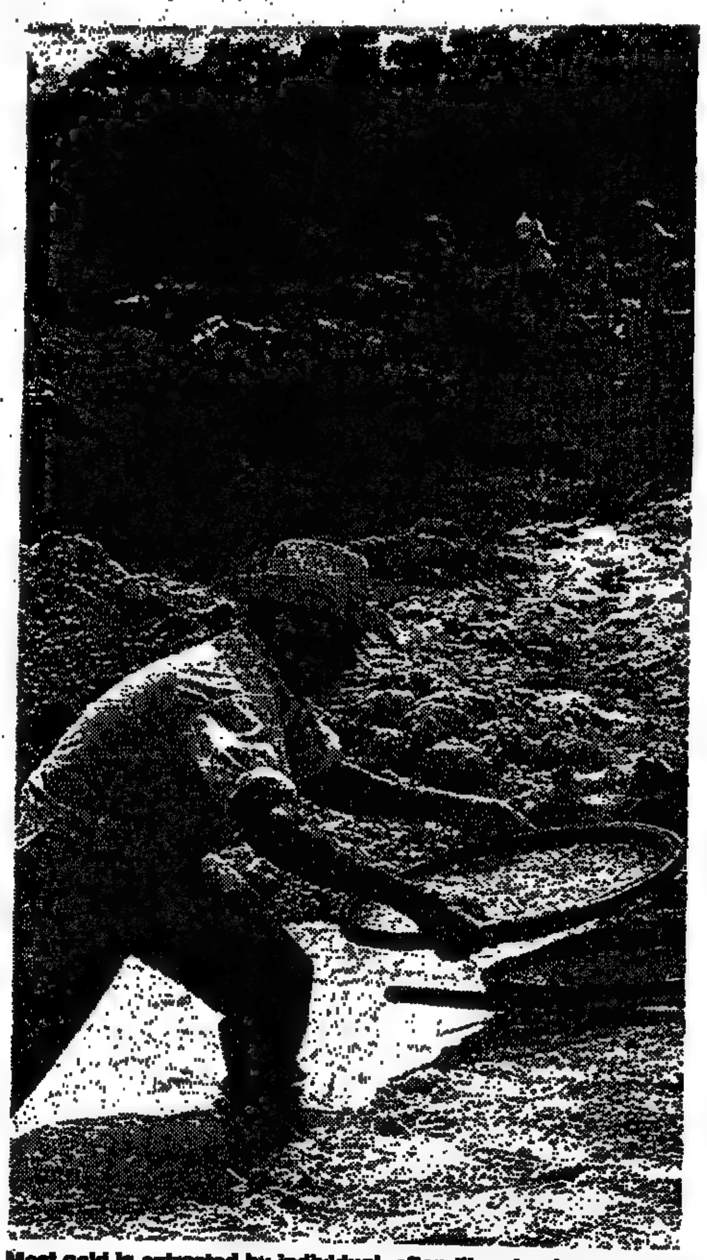
Their purchases made possible the first official gold export of three tonnes worth $47m in December 1987. Sales in 1988 leapt to 21 tonnes worth $298m.

Of this only three tonnes were registered for tax and Mr Celestino Armas, the Mines Minister, said the actual production last year was 27 tonnes. This year less has come in because, whereas earlier anyone, even the garimpeiros, could sell gold to the Central Bank, the rules have been made stricter with the result that more is being smuggled and more small miners such as Jean Louis, forced out of business.

The forthcoming tax changes and liberalisation is expected to see an influx of big mining companies.

The government of President Perez, who ironically nationalised the gold industry in 1974, hopes to have really hit El Dorado by the end of the decade and be producing 250 tonnes per annum.

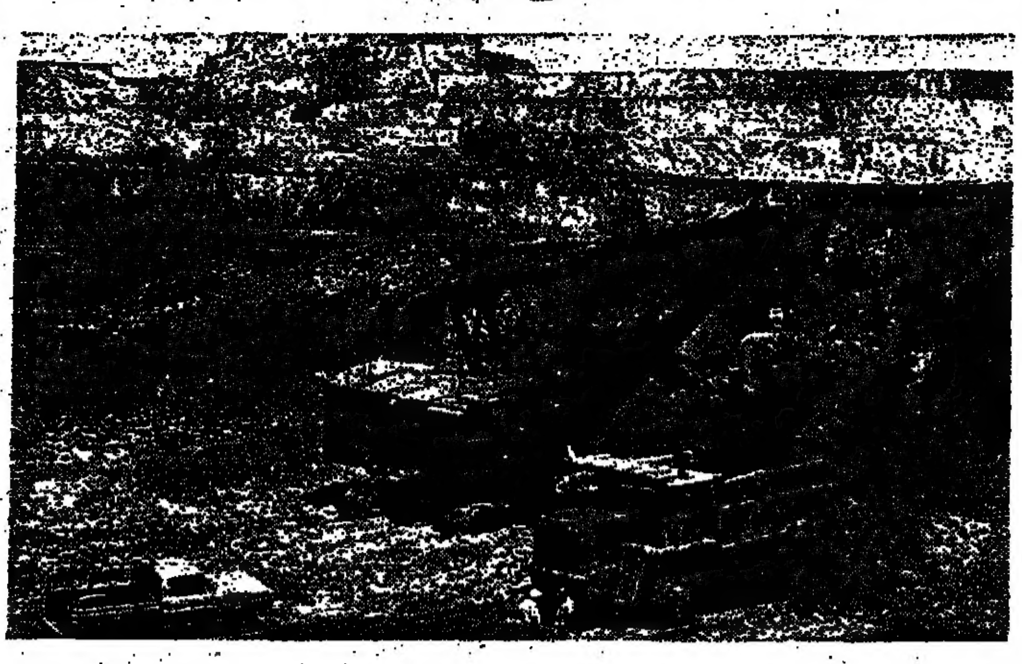
Christina Lamb



Most gold is extracted by individual, often illegal, miners

Robert Graham assesses moves to strengthen the economy

High price of adjustment



Iron ore mining in the Guayana region: this sector has been given greater economic importance

AFTER A traumatic year of brutal adjustment, the worst imbalances have been removed from the economy and a sound base is being laid for sustained recovery. However, the adjustment process is far from complete and it will require both political perseverance and skilled management to lower inflation, juggle interest rates and exchange policy while holding off social unrest over declining living standards.

"This year will be a difficult year with high inflation," predicts Mr Pedro Palma, head of independent consultants, MetroEconomia.

Inflation has been higher than originally anticipated; but the broad short-term objectives of the Perez administration, introduced last February, are being achieved.

The public sector deficit has been slashed from 9 per cent to 1.7 per cent of gross domestic product (unofficial estimates are less dramatic); domestic savings have risen; exchange rate distortions have been ironed out; the current account has swung from a $4.6bn deficit to a $792m surplus and reserves have risen by almost $1bn to $7.4bn.

The price for this achievement has been a painful recession. According to Central Bank figures, the adjustment measures introduced last February forced a 8.1 per cent fall in GDP. Some economists believe the drop was over 10 per cent.

The private sector contracted by 12.6 per cent and construction activity fell back 30 per cent. The sheer abruptness of going into reverse cannot be over-emphasised: in 1988, in the final year of the Lusinchi government, the economy grew 6.3 per cent.

Tough though this medicine has been, President Carlos Andres Perez had little alternative when he assumed office a year ago. His predecessor allowed the country's external position to deteriorate to the point of precariousness by failing to curb imports and permitting a disastrous foreign exchange policy that drained reserves.

In the period 1986-88, Venezuela lost $8.5bn in reserves through uncontrolled imports, subsidies that encouraged re-exports to Colombia and the Caribbean and because of an artificially low bolivar/dollar exchange rate frozen at Bs14.50. The external account was affected by an unnecessarily proud approach to Venezuela's $33bn foreign debt, insisting on the payment of principal and interest. Thus 40 per cent of export earnings were eaten up in debt payments.

Former President Lusinchi had sought to keep all sectors of society happy ignoring structural reforms or the problems that were accumulating. Credit was easy to obtain with negative interest rates and a false rise occured in 1988 fuelled by the public sector deficit which rose over two points. Lower international oil prices contributed to the deterioration of public finances.

Corrective measures, especially a sharp rise in petrol prices, provoked on February 27 the most serious riots seen in Caracas' recent history. In spite of the shock waves produced by the bloody riots, the Government pressed ahead with an orthodox stabilisation programme. Apart from price realignments and a tripling of interests rates, the main distortion ironed out concerned exchange rates.

The system of preferential exchange rates was eliminated in favour of single rate fixed by the Central Bank after a hefty devaluation from Bs14.5 to Bs38 to the dollar. Such a sharp change in the parity is still being absorbed. The Government underestimated the extent of letters of credit outstanding at the time ($6.3bn instead of dollars $2.7bn) and several companies and banks have been badly hit by foreign exchange losses.

In order to cover the cost of the foreign exchange loss on letters of credit companies have raised prices more steeply than anticipated, and this has contributed to the cost-led inflationary spiral. Inflation at year-end was running at 80 per cent per year.

Because the state generates more than 85 per cent of all foreign exchange through control of the strategic oil and aluminium sectors, devaluation automatically brought extra bolivar revenue.

This was an important element in helping to cut the public sector deficit last year. Public spending was also lower than expected due to delays in the preparation of social relief programmes. Meanwhile treasury revenues were up 122 per cent.

Economic activity is expected to remain depressed at least until the last quarter of this year and perhaps longer. Many manufacturers are still sitting on large inventories, having been hit not merely by the drop in domestic demand but by the disappearence of Caribbean and Colombian demand encouraged by the previously low prices. For those companies producing consumer goods and foodstuffs, the latter market accounted for up to 20 per cent of sales.

Unemployment, put at 9 per cent by the Government, is believed closer to 14 per cent with another 40 per cent under-employed. Some new employment will come from Government public works programmes and new investment.

The combination of tight company cash flows and high unemployment is expected to moderate wage demands.

There are signs companies outside the state sector cannot afford to pay the 25 per cent wage increase decreed by the Government at the end of the year. Given that pressure on prices will be lower inflation should come down to below 50 per cent in 1990. The Government hopes that when new trade liberalisation measures come into force in March, this will have a positive impact on inflation.

Imports are likely to pick up from last year's low of $7bn, stimulated by a 7 per cent real increase in public investment. However, the size of the trade surplus should remain above $4bn since oil earnings will rise slightly to $9.4bn and non-traditional exports will continue their modest expansion.

The overall balance of payments picture will be determined by the outcome of negotiations with the banks on $20bn of commercial debt. An agreement is unlikely before mid-year. Last year debt payments totalled $5.5bn ($2.5bn amortisation and $3bn in interest). This outflow was offset by new external resources of Bs2.9bn. Even without an agreement with the commercial banks Venezuela is counting on the inflow of $1.2bn from the IMF. With the balance of payments capital account in balance, reserves could reach $9bn or more at year end.

The Government's determination to follow through with short-term corrective measures will have a large impact on President Perez' pursuit of lasting changes. The economic team headed by Mr Miguel Rodriguez, the Planning Minister and including Mr Pedro Tinoco, president of the Central Bank and Mr Moises Naim, the Investment Minister is committed to the free market.

Their aim is fourfold:

- Reduce the role of the state through extensive privatisation and cutting the bureaucracy.
- Deregulate to achieve greater efficiency and competition.
- Expand the role of foreign investment.
- Shift the economy away from its oil dependency by encouraging new export-orientated industries and ending the import substitution model.

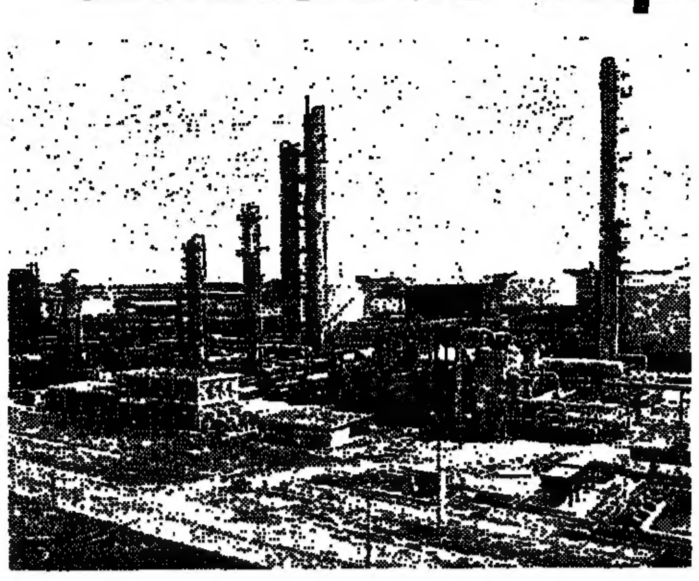
Privatisation has yet to gather momentum. The Government wants to transform the Venezuelan Investment Fund into the instrument for carrying out privatisation. The Fund was conceived in the 1973 oil boom as a vehicle for investing surplus income in strategic sectors. Overspending and the debt crisis have rendered it obsolete and the Fund's reserves have been raided. If its metamorphosis goes ahead this year, there could be no more apt symbol of economic change.

The Government has rewritten the investment laws opening up the country, but foreigners need to be convinced that the Government is really committed to a market economy.

The most immediate test of how much Venezuela is capable of change will come next month when import tariffs are due to be cut from 80 per cent to 50 per cent and when export subsidies are reduced. This will be the first competitive wind faced by local companies.

PETROCHEMICALS

Natural gas sparks ambitious expansion



The petrochemical industry is expanding: Olefins plant in the western state of Zulia which is increasing production capacity

PETROCHEMICALS, once viewed as a weak adjunct to Venezuela's prosperous petroleum industry, is in the midst of an ambitious expansion programme that will raise production capacity from 3.2m tonnes per year to nearly 10m tonnes per year by 1995.

This expansion, funded by both public and private capital, is being carried out by Pequiven (Petroquimica de Venezuela S.A.), the country's largest petrochemical producer and a wholly-owned subsidiary of the national oil company, PDVSA.

Pequiven's goals are several. It aims to take advantage of Venezuela's large reserves of natural gas as a base for making a wide range of petrochemical products that are competitive internationally.

It wants to satisfy domestic demand for petrochemicals and fertilisers, and develop new sources of export revenue from products such as MTBE (an additive for petrol), methanol and ammonia.

The company – alone or as a partner with international and Venezuelan investors – is building several new plants in Venezuela. At the same time, it is at various stages of negotiations involving a dizzy array of other projects.

Pequiven is building a 500,000 tonne per year MTBE plant at the Eastern Petrochemical complex in partnership with ENI's Ecofuel, and a 70,000 tonne per year joint-venture polypropylene plant with Mitsui at the Zulia-El Tablazo complex in the west.

The Venezuelan company is expanding an existing plant in Zulia, building a new facility (350,000 tonnes per year of ethylene and 130,000 tonnes per year of propylene) and will erect plants to produce chlorine, caustic soda, urea and ammonia and to mix fertilisers.

The latter projects are fully-owned by Pequiven. In addition, Pequiven is carrying out a number of other projects with local and international partners to produce ethylene oxide, ethylene glycl, styrene, low and high-density polyethylene, isopropanol, acetone, MVC, PVC, ammonia, methanol, propylene and polypropylene.

As well as Ecofuel and Mitsui, foreign equity partners in Venezuela's petrochemical sector include Cdf Chimie, Veba Oel, Olin, Shell, Dow Chemical and investors from Colombia.

Three important Venezuelan groups – Grupo Zuliano, Industrias Venoco and Corimon, have substantial stakes in the petrochemical sector, and possess extensive experience in chemicals and petrochemicals.

Venezuela's largest beer producer, Polar, plans to participate in an ammonia project with Pequiven and Norsk Hydro. Some large petrochemical projects that were announced under the last government, which ended a five year term in February 1989, are still being negotiated.

These delays were mainly caused by uncertainty over a change in government and the new economic policies that might emerge. The year-old government of President Carlos Andres Perez has cleared up many doubts by eliminating all controls on foreign exchange, liberalising foreign investment rules and generally moving toward a free market economy.

The administration made it clear that it was interested in moving ahead with the petrochemical expansion programme. In recent joint ventures, Pequiven has taken a maximum of 49.4 per cent of equity, but it may opt for a smaller share in future deals.

Pequiven wants the advantage of obtaining capital from international partners and is interested in securing their technology and gaining access to foreign markets. In spite of Pequiven's progress, some $2bn to $3bn in projects for petrochemicals and other sectors are still waiting on a Government decision on debt-equity swaps.

Last year the Government initiated public auctions for swaps, but the amounts involved covered only small and middle-size projects. Venezuelan officials said that clear decisions on swaps for large projects should be taken soon.

Pequiven is a well-managed and profitable concern. The company's president, Mr Hugo Finol, said that Pequiven earned a net profit last year of $54.4m. Production in 1988 reached over 2m tonnes per year, with several plants achieving record output.

Pequiven exported 829,000 tonnes of products in 1989 worth $68.4m. The company started up a 264,000 tonnes per year sulphuric acid plant last year and is close to completing extensive infrastructure work on its Eastern Petrochemical complex.

Super Octanos, the joint-venture MTBE plant being built at the eastern complex, will go on stream in September this year, Mr Finol said.

Pequiven has direct investments of $625m in new projects this year, while joint venture companies, where Pequiven is a partner, are to invest another $500m in Venezuela.

Last year, Pequiven signed agreements with international concerns covering several new projects, including construction of a $200m methanol plant (660,000 tonnes per year) in Venezuela with Ecofuel as a partner; another methanol plant (750,000 tonnes per year) costing $263m with Mitsubishi; use of Hoescht technology for a new plastic facility, and construction of a $120m styrene monomer plant (150,000 tonnes per year) in partnership with Dow Chemical and the Grupo Zuliano.

Venezuela's petrochemical sector was not always a money-maker or an attractive target for foreign capital.

Prior to 1978, when PDVSA took over the industry and set up Pequiven, the petrochemical sector was controlled by the Venezuelan Petrochemical Institute (IVP), a government-owned entity that had accumulated hundreds of millions of dollars in losses.

For a variety of reasons – mostly political interference – and a cumbersome operating structure – the IVP was unable to run its most important plants with any degree of efficiency. The IVP staggered along for years until President Perez put the industry under the full control of PDVSA's professional managers, and allowed it to function as a commercial entity.

In what is a stunning success story for Latin America, Pequiven put the industry's complicated plants in full operation, straightened out its finances and began making steady profits in 1984.

Pequiven's main problems are coping with the growing pains inherent in any large expansion and managing a big annual deficit derived from a government policy of selling fertilisers to Venezuelan farmers at far below international prices.

The Government compensates the industry for losses in the fertiliser business, and has pledged to phase out the subsidy over the next several years.

Joe Mann

OIL SECTOR

The exception to an unenviable record

THE COUNTRY'S political leaders have achieved an unenviable record. They have badly mismanaged almost every important sector of the national economy. But there is a striking exception.

Since the Venezuelan government nationalised the petroleum industry in 1976, successive administrations have allowed it to be run by professional managers and have avoided gross interference in its affairs. As a result, Venezuela's national oil company, Petroleos de Venezuela S.A. (PDVSA), is strong, profitable, well-managed, and ranks as one of the most important concerns in the world petroleum business.

Last year, according to official sources, PDVSA received $9.4bn from exports of crude oil and refined petroleum products, up approximately $1bn from 1988. No figures have been released on 1989's net earnings, but the company had a net profit of $1.02bn in 1988 on total income of $8.64bn and is expected to show substantial profits for last year and onward.

In 1989, the company reported crude oil reserves of close to 60bn barrels, the largest in the western hemisphere. Crude oil production, excluding condensates and natural gas liquids, was said to be 1.62m barrels per day (b/d) last year, and is projected to rise to 1.95m b/d in 1990.

Crude oil production potential was put at 2.85m b/d, but this level of production could not be sustained for a long period of time under current conditions since many of Venezuela's oil fields are old.

The company expects to have 47,000 employees by the end of this year, including workers in the petroleum and *petrochemical sectors, up from* 45,069 in 1988.

PDVSA has changed dramatically since it took over foreign oil concessionaries in 1976. At that time, the company was mainly a refiner and exporter of residual fuel oils. It was a company with no overseas operations and a relatively small number of international clients.

More worrisome was that it had dwindling reserves of light and medium crude oil. Thanks to sound planning and substantial investments, PDVSA strengthened its resource base at home and converted itself into a diversified international energy company.

It found and developed large, new reserves of light and medium crudes, changed refining patterns *so that it could* export more high-value light products and expanded its client base. In 1983, PDVSA began an ambitious programme of overseas investments in oil refining and distribution systems aimed at securing market shares in the US and Europe.

The company is a 50-50 partner in Ruhr Oel, an oil and petrochemical company in West Germany, and in Sweden's Nynas Petroleum. PDVSA has built a strong presence in the US, its most important market.

The Venezuelan company owns Citgo Petroleum a US refiner; is sole owner of Champlin Refining in Texas, and a *50 per cent* partner – with Union Oil of California – in Unoven, located in the Midwest. The company leases a former Shell refinery from the government of Curacao.

This means that PDVSA has about 1.5m b/d of refining capacity outside Venezuela, plus 1.2m b/d at home. These overseas holdings have been *very successful*. Moreover, PDVSA has diversified into coal and is marketing a new product, called Orimulsion, that it developed jointly with British Petroleum.

Orimulsion, sometimes called liquid coal, is an emulsion of bitumen, water and chemicals which competes with fuel oil used in electric *power companies and other* industrial sectors. It is cleaner than coal, can be transported and stored like fuel oil, but is cheaper.

Bitumen for Orimulsion is obtained from Venezuela's Orinoco Belt, the world's largest accumulation of bitumen and extra-heavy petroleum. The company is carrying out an investment programme that calls for outlays of $15.8bn up *to 1995. The company's* investment plan and product diversification are intended to keep PDVSA in a flexible position in international markets, and increase its ability to respond to market shifts.

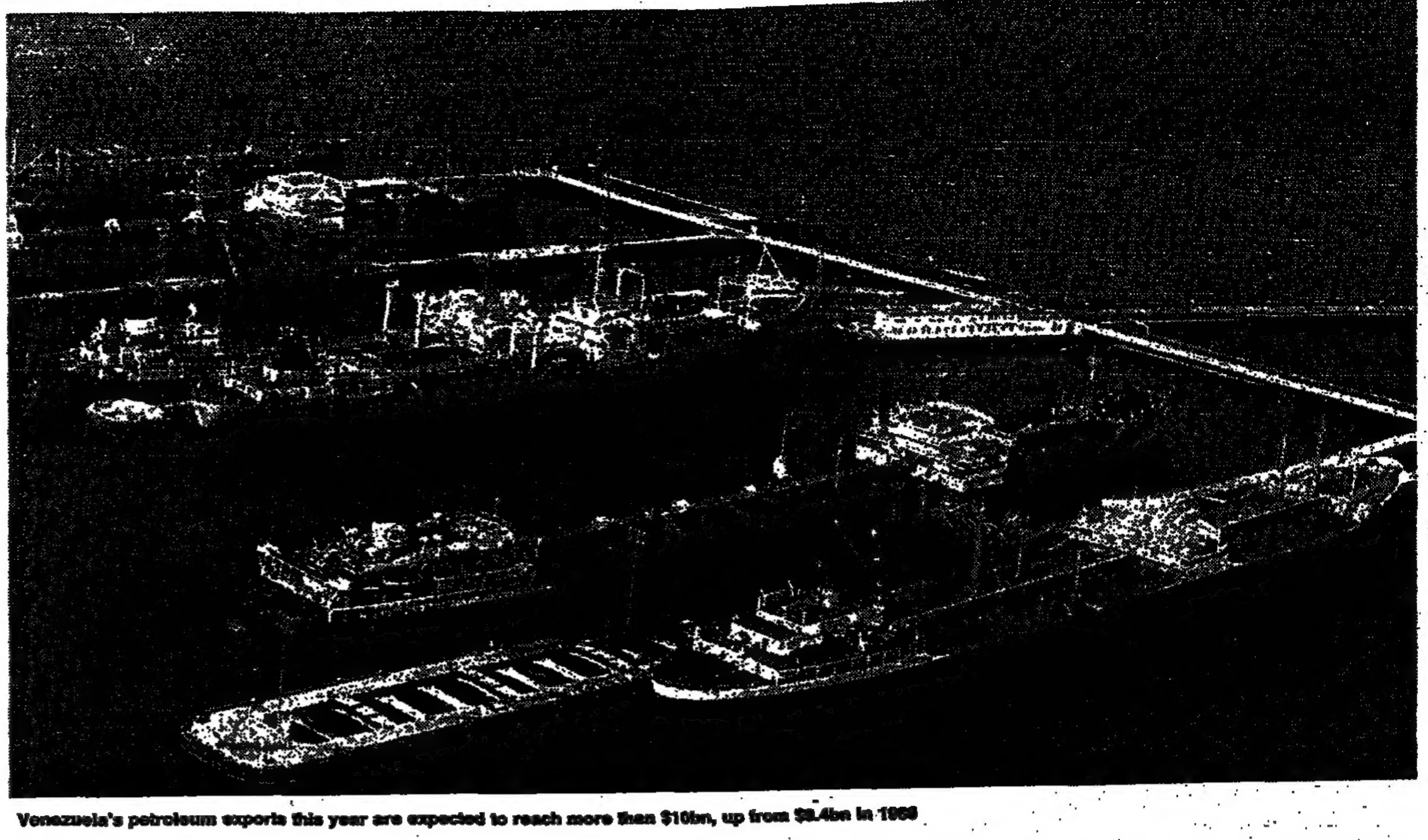
The Government prefers not to talk publicly about Orimulsion, but it plans to market large volumes over the next *few years*. If successful, it could provide substantial new income.

Venezuela calls Orimulsion a non-conventional hydrocarbon product and does not include bitumen production within its OPEC quota. Only relatively small volumes of Orimulsion have been exported so far, but as sales increase, Venezuela might face problems from some of its OPEC comrades.

In other areas, Mr Celestino Armas, Minister of Energy and Mines, says the goals of the investment programme are:

- Raising proved reserves of crude oil to 70bn barrels and increasing production capacity to 3.5m b/d by 1995.
- Increasing domestic oil refining capacity by around 400,000 b/d while continuing to stress the processing and export of high-value, light products such as petrol and kerosene.
- Lifting coal production to 5m tonnes per annum.
- Raising petrochemical production capacity to nearly 10m tonnes per year.

PDVSA *has* moved aggressively to acquire petroleum storage depots offshore, thus effectively blocking out some unwanted competition from other oil companies. The company recently agreed to pay about $100m for a mothballed Chevron refinery in the Bahamas. This gives the company 20m barrels of additional storage capacity in the Caribbean.



Venezuela's petroleum exports this year are expected to reach more than $10bn, up from $9.4bn in 1989

PDVSA also bought an oil storage depot in Bonaire last year and controls tank facilities at the refinery it leases from Curacao. PDVSA's oil storage capacity outside Venezuela, including the Bahamas refinery, is now about 100m barrels. Mr Armas said recently that PDVSA will buy new tankers to enlarge its fleet of 19.

A new element in Venezuelan oil policy involves foreign investment. The Government of President Carlos Andres Perez has said that it is interested in working out agreements with international oil companies in upstream (exploration and production) and downstream (refining and marketing) activities within Venezuela.

This is a departure from past policy. When Mr Perez was President of Venezuela from 1974-79, he executed the oil industry nationalisation. Since then, PDVSA has only been allowed to run joint ventures with foreign partners in the petrochemical sector.

However, the Government realises that it does not have the money to push ahead with all the new exploration and production programmes it has planned, or to develop several costly new projects in oil refining and natural gas that will serve export markets.

With PDVSA's excellent record as a partner in overseas ventures and its sound financial standing, it should have no trouble finding partners for a variety of new ventures at home. Shell and BP are among several international companies that have been discussing joint-venture projects with the Venezuelans.

However, potential investors point out that there is at least one roadblock; tax legislation takes a heavy share of PDVSA's profits. If foreigners are to invest large sums in the domestic oil and gas sector, this tax burden must be reduced.

PDVSA's does have problems. One serious long-term difficulty is Venezuela's domestic market, where PDVSA is making a loss due to artificially low retail prices for refined products.

Governments in Venezuela have generally been reluctant to raise domestic fuel prices to avoid a negative political reaction. As a result, prices for many years have been far below international levels, and PDVSA has been suffering increasing financial losses in this area.

Last year, its loss on the domestic market was over $386m. In early 1989, home prices for refined products and natural gas were raised by an average of more than 100 per cent as part of a general economic reform programme.

Higher petrol prices sparked riots and looting *last February* that left around 300 persons dead. Prices today, however, remain very low in international terms due to devaluation of the Venezuelan currency. A gallon (US) of high octane petrol, for example, costs the equivalent of 26 cents.

In spite of fierce political opposition to higher fuel prices, the Government *seems* intent on making regular increases in order to cut the industry's losses.

Another area of concern is the temptation of politicians to meddle in the industry's operating affairs. The Government is legally responsible *for* setting oil industry policy. PDVSA and its subsidiaries are charged with implementing this policy. But sometimes, the lines of authority are blurred.

For example, PDVSA recently agreed to purchase the Southland Corporation's 50 per cent holding in Citgo Petro*leum for over $660m*, an operation obviously approved at the highest levels of government.

At the same time, however, President Perez announced that Venezuela will sell 50 per cent of Citgo. Such statements, which sometimes are intended for home consumption, call into question the policy-making ability of the executive *branch and do no good for* PDVSA, which will some day try to sell half of its Citgo shares at a profit.

PDVSA is in need of a pruning. Originally, PDVSA was set up as a parent company to manage the oil industry's main operating units, Corpoven, Maraven and Lagoven, as well as a number of other subsid*iaries. The plan was to have a* staff of about 200 at the parent company, but PDVSA today has become a much larger bureaucracy.

Christina Lamb on an environmental approach that still fails to produce results

Policy promises fail to materialise

THERE IS something odd about a country with 180 ecology groups for the protection of everything from disappearing forests to endangered species and Indian tribes yet which has litter everywhere while the complete lack of sewage treatment plants has caused its two largest lakes to silt up.

Venezuela, on paper at least, has a long conservation tradition. It was the first in the region to set up an environment ministry in 1977, helped by the wealth from its oil reserves. Its first national park was created in 1937 and today there are 32 covering 12 per cent of its territory. Venezuela dropped a programme to develop its Amazonian areas in the early 1970s after reports showed the damage it would cause to the forests.

Last year there was an outcry when the film-maker Steven Spielberg wanted to shoot some of his film Arachnaphobia on top of a tepui, a strange flat topped geological formation almost unique to Venezuela with a fragile ecosystem to which 75 per cent of the plants are endemic. After intense lobbying a small crew was allowed in but conservation groups felt even that was too much and set a bad precedent.

Venezuela has much to protect though it has had less publicity than other countries in the region. Its territory contains a wide range of ecosystems – high mountains, seasonally flooded plains, mangroves and marine coastal wetlands. Some 15 per cent of the world's bird species are found only in Venezuela. It has more varieties of mammals than Africa south of the Sahara, and more species of plants than US and Canada combined.

The statute books are a model of tough regulations. Last year the ministry issued 40 decrees to protect natural resources setting forestation limits, creating more reserves, and putting a blanket ban on all mining in the Amazon region. Dr Enrique Comenares Finol, the Environment Minister, says: "We would rather save our environment for the future than make quick money by developing mineral resources in these areas".

Fine words but the problem is implementation. At Puerto Cabello, sulphuric acid and paper plants spew noxious emissions into the sky and sea which is an ugly brown. In spite of regulations on emissions and safety, 10 years ago there was a large mercury spill. Dr Glenda Marina at Fudena, one of the oldest conservation groups, says: "On paper we are one of the best but sadly we have no record for implementing."

Illegal goldmining is on the rise, particularly since the clampdown in Brazil. Estimates indicate that up to 50,000 *garimpeiros* are destroying the forest, silting rivers by washing soil and contaminating animal life by using mercury to shift the gold. The National Guard have set up border patrols but the huge distances and difficult jungle terrain make it hard to police.

The Government has tended to think it enough to declare an area "protected" without either properly managing it or attempting to renew its resources.

Venezuela's low population density and lack of industrialisation have prevented environmental problems of acid rain and river pollution. But Dr Aldemaro Romero, the founder of BIOMA, one of the biggest conservation groups, says: "We have already lost 25 per cent of our natural vegetation."

Many conservation projects initiated during the oil peak of the 1970s have since been cut back or terminated. The fear is that as financial problems force the country to diversify into non-oil areas such as increased industry, mining, tourism and agriculture, environmental problems will spiral.

Dr Ivan Maldonaldo, a leading rancher believes that progress in these areas can be compatible with environmental protection. His land is in Los Llanos, the plains north of the Orinoco. Recent agricultural expansion *in this area, has* damaged the environment with excessive use of pesticides and changes in the water regime, while overhunting has almost wiped out some species such as Orinoco crocodiles and Amazonian river turtles. The sale of their hides while forbidden in Venezuela, raises high prices in Colombia.

Dr Maldonaldo set up a system of dams and dykes to keep water flow even over the seasons and turned much of his ranch into a reserve, preserving animals such as the chiguire, the world's biggest rodent, which was almost wiped out but now numbers 40,000. Running the reserve has been good for business. Chiguires are fast breeders so can be sold, and there is a new source of income from tourists. Other wealthy farmers are copying his example.

Environment is not just a middle class concern. In Paraguana peninsula where the main activity is goat farming, three local communities were so worried about the destruction of their last remaining forests that they handed over the land to BIOMA and refused mining rights to a company which had discovered graphite, in spite of lure of jobs and money.

A Critical Areas programme to "preserve the last of the least" was set up with locals patrolling to stop deforestation or grazing.

The difference today in these reserves is remarkable – crossing the boundaries one enters a new world of rare parrots, crimson and orange birds, orchids and flowering cactuses, strange limestone formations among which giant sloths and armadillos once stalked.

This shows that Venezuela's environment can still be saved, in spite of its fiscal problems. It is a manageable size and Dr Marina says: "There is enough information available now for us to diversify in ways which do not greatly damage the ecosystem."

POWER

Mix of public and private

THE UTILITY companies anticipate a breathing space of a few years before large-scale hydroelectric and gas-fuelled generating projects will be needed to meet renewed demand for electric power which has fallen during the recession.

Under new rules to encourage foreign investment, international companies may find new opportunities to participate in the development of Venezuela's energy generation, transmission and servicing sectors.

The electric power industry is a barometer of how extensively the country's economy is opening up to privatisation and foreign investors.

Venezuelan consumers enjoy one of the best electrical energy services in Latin America served by a mix of private and public electric utility companies. Brownouts (when companies lower output to meet high levels of demand) and electrical surges that cripple other Latin industries are seen infrequently in Venezuela.

Dominant in the electric power industry are the private La Electricidad de Caracas, serving the capital's 511,173 subscribers; the monolithic state company Cadafe, serving 92 per cent of national territory with 1.7m subscribers; and Edelca, a subsidiary of the state-owned conglomerate CVG, which is responsible for electric power generation in

Leopoldo Sucre Figarella, head of CVG: manages hydro-electric power companies

the heavy industry centre of Guayana. A number of small private and state companies completes the utilities line-up.

The industry, ostensibly subject to Ministry of Energy and Mines policies, has been subject to little co-ordination by the ministry. As a result of the power companies' initiative and planning, the country has been integrated into a national grid since 1987 to minimise electric power failures.

The grid, known as OPSIS, (Operation of Interconnected Systems), regulates the flow of electric power from Edelca's hydroelectric power dams in the south-eastern part of the country to high demand areas and joins with Cadafe's generating system to reach as far west as Maracaibo.

From OPSIS in Caracas, it is possible to channel increased electrical flows anywhere in the country that has peak demand, a power outage or a shutdown of its normal energy source. With Venezuela's installed capacity at about 18,000 megawatts (mw), the country is well ahead of demand.

Excess capacity means that negotiations on electric power sales to Guyana and Colombia have a good chance of success. Hydroelectric projects planned on the Caroni river in eastern Venezuela could have their construction schedule lengthened since a 9 per cent increase in demand this year and another peak of 13 per cent in 1993 were planned to meet aluminium plant openings which are expected to be delayed.

With the pace of projects slowed, the electric energy sector has time to analyse the cost effectiveness of its generating plants. State-owned petroleum companies are slowly converting from liquid fuel-powered generators to gas-fuelled plants, and eventually will hook up with the national grid.

This will free petroleum for export and utilise largely untapped, extensive gas reserves as well as gas now burned off. Second and third stages of the Uribante Caparo hydroelectric complex high in the Andes are likely to be abandoned or delayed several years as the project is very costly for its megawatt yield.

Part of the new interest in cost control has been forced on state-owned companies since the Government has sought to limit deficit spending as part of an agreement with the International Monetary Fund.

A long-overdue electricity rate increase was authorised beginning April, 1989, and all utilities are making monthly adjustments in their rates.

With a ceiling on rates and less chance to dip into the treasury to cover inefficiency, government companies have increased incentives to control their expenses.

Cadafe, C.A. de Administracion y Fomento Electrico, announced in February a large restructuring programme that breaks up its operations into a headquarters company, a power generation and transmission company, four regional service and distribution companies, and a division to oversee the Uribante Caparo hydroelectric complex.

The rest of the responsibilities of the complex, which includes projects to regulate water levels in the central flood plains and rivers, is to move to the Environment Ministry. With this goes 35 per cent of Cadafe's outstanding debt, which totals $1.4bn.

Mr Atilio Castillo, president of Cadafe, said that from the utility's day-to-day operations, there were "zero criteria for cost savings." With rate increases, the company needed to change its focus from developing capacity and installing transmission lines to providing reliable and efficient service to customers.

The utility, founded 31 years ago to electrify most rural and urban areas, has brought electric power to every town with more than 500 inhabitants. It has raised its installed capacity twenty-two fold to 4,696mw, increased the number of subscribers eight times, to 1.7m (reaching an estimated population of 10m), and more than quadrupled its workforce to 14,000.

With this growth have come high operating costs. Putting social democratic principles into practice, Cadafe delivers electricity to 483,890 low-income subscribers who qualify for a special rate of 50 bolivars ($1.15) every two months. Prior to recent rate increases, high-level individual consumers had cheap energy costs, averaging $23.00 per month, with air conditioning and other appliances running at full blast.

For 1988, Cadafe reported a net loss of $7.6m on on energy sales of $191m. Beset by complaints of excessive charges to subscribers, improper application of rates, and negligence in reading metres, Cadafe has hired three well-known accounting firms to audit their billing and collection services.

Mr Castillo, an engineer with extensive experience in public and private sector management posts, has based the restructuring plan on the model of the state-owned oil company PDVSA, where a parent company oversees the activities of several operating subsidiaries.

Short-term plans include a joint-venture company with a foreign partner to oversee the maintenance and refurbishment of power transformers and distribution systems.

Cadafe will be profitable and self-financing by April 1991, according to Mr Castillo. Over the medium term, Mr Castillo sees privatising certain sectors of high-tension transmission and establishing 300mw combined cycle installations, run privately but incorporated into existing infrastructure.

The BOT (buy, operate and transfer) model where foreign investors set up, operate and later transfer companies to Venezuelan ownership, holds particular appeal, he said.

Asea Brown Boveri, General Electric (US), Westinghouse, Siemens and Japanese companies headed by Mitsubishi are suppliers to the electric power industry. Whether the startling turnaround of this large company can be achieved will be a good indicator of how seriously the country's year-old government works at putting the economy on a healthy footing.

The transformation of Cadafe should provide ample opportunities to show that the Government can replace rhetoric with action, and permit an important dose of privatisation and foreign investment.

Ann Charters

Henrique Machado Zuloaga: head of Sivensa

PROFILE: head of the country's largest private steel producer

Forging a new work ethic

WHEN communists attacked the nation's leading industrialists and branded them as enemies of the masses, the Machado Zuloaga name was frequently invoked.

The Machado family came to Venezuela from Portugal around 1790 and the Zuloagas arrived from the Basque region of Spain in 1820. Both groups built small industrial concerns into prosperous businesses which formed the base for the family's fortune. But for Mr Henrique Machado Zuloaga, wealth and social stature hold far less importance than the need to work as hard, or harder, than anyone else, and to help Venezuela's social and economic development.

Mr Machado, tall, lean and an active polo player at 59, was trained as a civil engineer at Venezuela's Central University and went on for advanced studies in other areas at the University of Paris and the London School of Economics. In 1962, Mr Machado joined Sivensa S.A., the country's largest private sector steelmaker, where he has spent most of his professional life.

He is chief executive of Sivensa and its subsidiary companies, a board member at a large paper producer, director of a variety of business and community groups and one of Venezuela's leading proponents of responsible capitalism.

The fact that Mr Machado is head of Sivensa has had much less to do with his family's shares in the company than with his ability as an executive. Sivensa is actively traded on the Caracas stock exchange and regularly provides its 3,500 shareholders with cash and stock dividends.

Mr Machado runs a complex, capital intensive business in a country where changes in economic conditions and government rules are extremely difficult to project.

Sivensa consistently has been a profitable company. During its last fiscal year, it weathered the start of a recession and absorbed substantial foreign exchange losses caused by a currency devaluation and an abrupt change in government rules covering foreign debts of private companies.

For the year ending September 30, 1989, the group recorded a net profit of $21.8m on income of $348m and its local currency profits were 35 per cent higher than in the previous fiscal year.

Exports last year were $107m, and are projected at over $180m for 1990. Mr Machado has led the Sivensa group's diversification from basic steel lines into a wide range of products for construction, the automotive industry and other sectors. He managed large investments in new plants to serve the petroleum industry, new capacity for special steels and a facility for making iron ore briquettes.

Sivensa has set up successful joint ventures with international companies, such as TRW and Dana, and has developed export capacity in specialised products that will be more important to the company's performance.

Sivensa has worked hard to improve quality and productivity. Mr Machado pointed out that the company's diversified product lines allow it to react quickly to changes in domestic and overseas demand, and make it less dependent on the performance of one or two sectors, such as construction and autos.

He noted that Sivensa enjoys competitive advantages due to low-cost electric energy and natural gas, local deposits of high-grade iron ore, the use of advanced technology, an experienced workforce, and a good geographical location for reaching markets in the US and Europe.

He is modest about his own contributions to making Sivensa a strong and flexible industrial group, and prefers to give much of the credit to his executive team.

Joe Mann

Stephen Fidler on the uneasy relations between Venezuela and its foreign commercial creditors

Tough talking Perez angers the bankers

RELATIONS between Venezuela and its commercial bank lenders have long been poor. At the root of it is the perception among commercial bank lenders that Venezuela's debt predicament was an avoidable problem largely the result of poor economic management by successive governments. When private wealth held abroad by Venezuelans is taken into account, many estimates suggest the country is a net creditor.

From the point of view of the government of President Carlos Andres Perez, who has just presided over a year of sharp economic contraction in the economy, bank lenders should be seen as sharing some of the sacrifices to pull the economy through its difficulties. The political reasons to insist on such sacrifices from banks were, if anything, intensified by the food riots of February last year. Caracas wants banks to write off some of their loans.

The country, which up until late 1988 had been one of the few in the region repaying principal, had by the autumn fallen more than $1bn in arrears to banks. Those arrears were cleared up after leading banks agreed an interim loan of $600m in September. But the talks now taking place on a comprehensive debt restructuring come without Venezuela having made an interest payment since September, a point which has not kindly disposed at least some bankers to Caracas.

Others are hoping issues such as the controversial purchase announced in November by Petroleos de Venezuela, the state hydrocarbons concern, of the 50 per cent it did not already own of the US company Citgo Petroleum, will be forgotten for long enough to allow a restructuring deal to be struck. That purchase cost $675m.

Relations between commercial banks and the International Monetary Fund have also come under strain because the Fund agreed to lend to Venezuela last year even as the country was building arrears with commercial banks. Some bankers believe there has been tacit encouragement of the arrears by the Fund.

Money from the IMF, which has agreed to lend Venezuela $4.6bn in an extended fund facility (EFF) over three years, and the World Bank, which also agreed to make $755m in loans, is expected to finance debt or debt service reduction in the restructuring. The use of official funds in this way was first envisaged under the new debt initiative launched last March by the US Treasury Secretary, Mr Nicholas Brady.

Mexico is close to completion of a Brady-type agreement, and so is the Philippines, while Costa Rica has also negotiated such an accord with its leading commercial banks. All three have been different.

Venezuela could well be next in line and its accord looks as if it will be as different again. It could set aside $1.2bn from the EFF, as well as a further $700m from the fund. Some $200m of the World Bank loans could also be set aside as well as a further pool from the World Bank.

The banks, which do not want the deal to involve the coercion on banks that some saw at work in the Mexican package, have suggested the debt restructuring include three options: new loans, a buy-back of debt for cash, and the exchange of debt for collateralised bonds carrying some guarantees, so-called defeasance. They are keen for debt-equity conversion programmes to continue.

At the time of writing, the banks, which are led by Chase Manhattan, await a reply from the Venezuelan government, which has over the past year become somewhat less assertive about the extent of debt forgiveness it wants to wring out of the banks. However, some banks have objected to earlier Venezuelan proposals that it pledge some of its oil and gold receivables on bonds in a defeasance option. They think that would inhibit the country's repayment ability on the rest of its debt.

According to figures from the World Bank, at the end of 1988 commercial banks were owed about $26.6bn of the country's $34.7bn outstanding debt. Long-term debt likely to be covered by any agreement with banks amounted to $21.7bn.

The Venezuelans are seeking, with the support of the IMF, about $1bn a year from the commercial bank agreement, a figure which bankers believe could come down significantly at least to $600m-$700m, particularly in view of the rise in the price of the country's main export, oil. This has helped build liquid foreign exchange reserves to about $3bn, from about $250m at end-1988, it is believed, not counting a further $4.2bn of gold reserves.

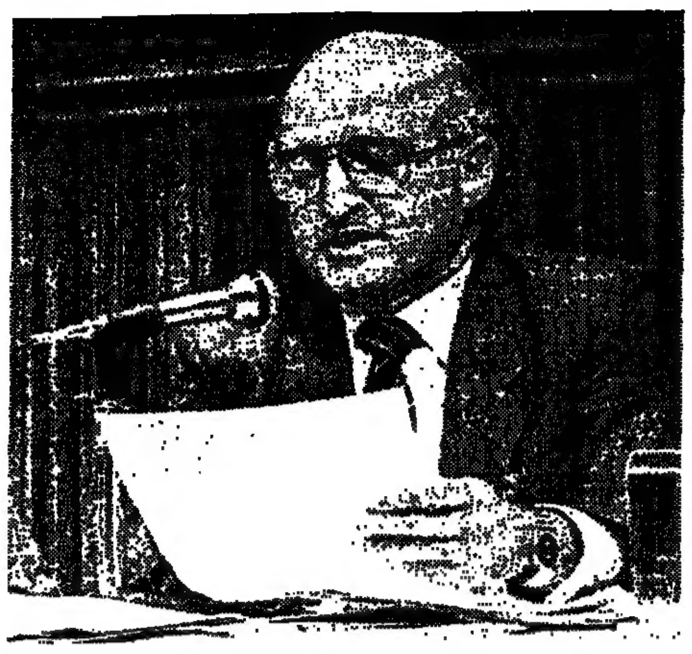
On top of this, the Inter-American Development Bank, with its newly-enlarged capital base, has said it will lend Venezuela $2.5bn over four years to support the government's economic reform programme.

Mr Andres Perez has surprised those familiar with his free-spending 1970s administration with his steady pursuit of economic orthodoxy. But he has coupled that with tough rhetoric on foreign debt.

Apart from the bankers' emotional dislike to conceding debt forgiveness, there are general concerns about whether Venezuela is an appropriate candidate for debt reduction. Venezuela has been closer to "voluntary" borrowings in the international market than most of its neighbours and a Brady accord would, in the opinion of some, delay a return to normal relations with its external creditors and investors.

PROFILE: Private utility boss

Good results in tough areas


Francisco Aguerrevere: has taken on the hardest jobs

THE HEAD of La Electricidad de Caracas, the country's largest private utility, ranks as one of Venezuela's top problem-solvers.

Mr Francisco Aguerrevere, 57, is a civil engineer-turned-manager who has taken on some of the toughest jobs his country has had to offer. For example, in 1979 he was handed the problem of completing a critical stage of construction work on one of the world's largest hydroelectric dams, located in Venezuela's remote south-east jungles, at a time of serious delays and labour problems.

Mr Aguerrevere managed to finish this task on schedule. Later, he was asked to head La Electricidad when the big utility was battling with the Government to obtain rate increases that would keep it solvent, trying to cope with a $726m foreign debt on the heels of a large devaluation and struggling to supply reliable electric power to the slum cities that cover the mountains and valleys that make up Venezuela's capital.

La Electricidad still faces some challenges, its foreign debt, for example, has been reduced to about $500m, but still is the largest private sector debt in Venezuela. However, Mr Aguerrevere, first as chief financial officer and later president, deserves much of the credit for pulling the company out of financial difficulties, diversifying its business line, restoring the confidence of investors and ensuring that it continues to provide efficient service to Caracas' population of some 4m.

He played an important role in convincing Venezuelan politicians that expensive public services could not be provided if the Government continued to keep rates for these services at unrealistically low levels. Mr Aguerrevere's achievements may not seem all that remarkable to an executive of any large company dealing with financial problems, strikes and the execution of a large project. But the problems Mr Aguerrevere faced were sometimes unique.

The Guri hydroelectric dam, for example, was a large construction project set in a remote site. The army of workers building the second stage of the dam, which required teams working around the clock, were in open rebellion over problems related to food, housing and other conditions.

The National Guard had to be called in to quell disturbances, construction fell far behind schedule and Edelca, the government-owned power company developing the dam stood to lose large sums of money if the delays continued.

Moreover, the Government feared it would be labelled as incompetent if it could not move ahead with this project, which counted on some expensive outside consulting contracts.

Although the Government supported the Guri project, political and business groups grossly interfered in decisions affecting the dam and endangered its execution.

Mr Aguerrevere was named president of Edelca in 1979, just as this long-running project had reached a critical stage of construction and as problems came to a boil. He disbanded a large international consortium charged with carrying out the project, set up four new groups to handle different construction sub-projects and imposed a contractual system that penalised inefficient companies.

After long bouts of negotiations, he also managed to solve bitter labour and social problems, improve supply logistics and got the project back on schedule without excessive costs.

Not only was the Edelca chief dealing with a large number of contractors, sub-contractors, technical staff, lawyers, suppliers, the National Guard, union heads and workers, but he also had to sort out differences among regional and national political figures, Government bureaucrats and union officials from opposing political groups.

Mr Aguerrevere, a quiet and affable man who can be tough as nails, is viewed as "one of Venezuela's most competent executives and an efficient manager who has obtained excellent results under very difficult conditions," said one international banker.

He studied civil engineering at Andres Bello Catholic University in Caracas, and earned a master's degree in engineering from Stanford University in the US.

He worked for the US Bureau of Reclamation and for Venezuela's Public Works Ministry before taking an executive post at Avensa, a Venezuelan airline. He was general manager of Venezuela's international airline, Viasa, and held executive posts on a tourism company and a steel-making concern.

Joe Mann

Aluminium may cut economic dependence on oil, says Joe Mann

Low output costs lift hopes


Venezuela is investing heavily on aluminium with plans to be a leading world producer by the end of the decade

THE GOVERNMENT is laying heavy bets on developing new production and export capacity for primary aluminium during the 1990s in the attempt to reduce its long-standing economic dependence on petroleum.

Venalum and Alcasa, the country's two biggest smelters, produced 545,000 metric tonnes of primary aluminium in 1989, most of which was exported. They are aiming for output of 616,000 tonnes this year.

The Corporacion Venezolana de Guayana (CVG), government-owned company that oversees development of Venezuela's heavy industry and mining centre in the south-east Guayana region, expects Venalum and Alcasa to reach a production capacity of 850,000 tonnes by the end of 1994.

The CVG is discussing the construction of additional aluminium smelters for Venezuela in partnership with international companies and Venezuelan investors. Total new capacity for projects under study is close to 1.8m tonnes per year.

Potential partners include Alcoa, Alumax, Austria Metall, Clarendon, Dooyang, EIE, Italimpianti, Pechiney, Reynolds, Swedeal, and Techint, as well as other investors from Mexico, Venezuela and Yugoslavia.

Foreign companies are already partners in several Venezuelan-based aluminium ventures where the CVG holds a majority of shares. A group of Japanese industrial companies are minority shareholders in Venalum, the country's largest smelter. Reynolds International is a shareholder in Alcasa, which makes primary aluminium and products. Alusuisse is a partner in Interalumina, which converts bauxite into alumina.

In addition, the CVG, international partners and Venezuelan investors hold stakes in a number of Venezuelan-based companies that make aluminium products. CVG subsidiaries also own shares in aluminium companies in Belgium, Costa Rica and the US. According to the CVG's president, Mr Leopoldo Sucre Figarella, aluminium development plans for the Guayana region are based on comparative advantages that include:

- Abundant hydroelectric power and electricity rates among the lowest in the world.
- Nearby deposits of high-grade bauxite ore (Bauxiven) and alumina facilities (Interalumina).
- Liberal rules for foreign investors.
- A competitive and low-cost labour force.
- Smelters located in Guayana have easy access to the Atlantic via the Orinoco river.
- CVG companies possess experience in all aspects of the aluminium business.

CVG planners feel that even though world demand for aluminium may grow more slowly than producers wish, Venezuela's extremely low production costs will always give the country an edge.

Figures provided by Anthony Bird Associates, consultants, indicate that Venezuela's operating costs for producing a ton of primary aluminium ($903) are far below costs for 11 other producing countries. The other figures range from $1,035 per ton (France, Canada and Brazil) to $1,322 per ton (Italy).

In new smelting ventures, the CVG is seeking partners who offer capital, advanced aluminium technology and access to international markets. In contrast to its participation in earlier projects, the company wants to take only a minority equity position in any new smelters.

officials have discussed some aluminium joint ventures with potential partners but final agreements on projects have yet to be announced. Mr Sucre, who is also State Minister for Development of the Guayana Region, suggested that some potential investors probably were concerned about press allegations that corrupt practices occurred in CVG companies under the previous government.

The minister, who called the news stories part of a campaign to discredit the CVG industrial group, said that the police and courts investigated the allegations, and that no firm evidence of wrong-doing has yet appeared. Business sources in Caracas said that delays have occurred since investors decided to see what the new Government, which started a five-year term in February of 1989, would do in terms of economic policies, foreign investment rules and approval of debt-equity swaps to cover part of the large investments required for new smelters.

Swap auctions began late last year at the central bank but did not cover proposed investments in aluminium, which in the case of a large smelter can reach over $500m. Some industry observers are concerned that profits at Venezuela's existing smelters are too heavily dependent on government export incentives.

Venalum and Alcasa have regularly shown net profits in recent years, but they will have to make operations more efficient since export incentives are being phased out. The CVG minister said that he expected the government to act soon on applications for swaps involving investments in aluminium, petrochemicals and other sectors.

Venezuela's aluminium plans have moved forward over the last few months. The CVG minister signed a letter of intent in South Korea covering the construction of a 200,000 tonnes per year aluminium smelter and anode plant in Venezuela. Majority partners in the project will be the Dooyang Group of South Korea and the EIE Group of Japan. CVG will hold a minority position.

Japan's Export-Import Bank has agreed a $180m loan to help finance Interalumina's expansion programme, which will raise alumina production capacity from 1m tonnes per year to 2m tonnes.

An aluminium alloy plant, Alloyven S.A., was recently inaugurated in Venezuela. The facility, whose partners are Kawecki Billiton (Shell group), Venezuelan investors (ANF) and the CVG, will be able to produce 15,000 tonnes per year of aluminium alloys to be used in automotive components.